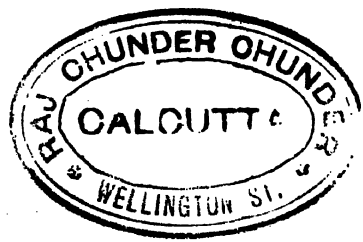
MONEY

AND

SOCIAL PROBLEMS



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MONEY

AND

SOCIAL PROBLEMS

J. WILSON HARPER

EDINBURGH & LONDON
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1896

TO

MRS. MARGARET MACGOWAN RICHMOND

PREFACE

THE ethical elements which enter into monetary problems, and the interest which the public at the present time take in all monetary questions, afford a sufficient justification for the attempt made in this volume to read these questions in the light of history and economic principles, and to trace their bearing upon social problems.

My only regret in issuing this work is that the late Dr. Richmond of Greenock, who placed his unique collection of old currency literature at my disposal, was not spared to see some of the views on monetary questions, which he held with great fervour, embodied in a permanent form. His grasp of these questions was very thorough; and to the last he held that social welfare could not be attained until banking monopolies were abolished, the fiduciary money of the State placed on a satisfactory basis, and the monetary problem solved.

I have to express my sincere thanks to my friends. Mr. Matthew Blair, for many valuable suggestions while this work was passing through the press, and Mr. William Miller, for the synopsis of contents and the index which he has prepared.

J. WILSON HARPER.

THE GRANGE, ALLOA, *May* 1896.

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MONEY AND SOCIAL PROBLEMS

CHAPTER I

INTRODUCTION

I

THE aim of this book is to exhibit the relation of money to social questions, and to show how deeply signs of wealth affect social problems. The historical method has been followed, and an attempt has been made to give to the subject a scientific treatment. The historical method enables us to trace with accuracy the various steps in the development of signs of wealth; it also yields the most reliable and satisfactory results. The scientific treatment, again, gives prominence to the economic, political, and moral elements that enter into the subject; and it affords abundant proof that in handling money in relation to social problems we are dealing with ethical questions that have the intensest human interest. In the following pages, accordingly, an effort has been made to present such a survey of facts, and to make such a synthesis of economic

principles as will bring the bearing of signs of wealth on social questions to the front.

1. The *media* of exchange in use in the very earliest times are wrapped in obscurity. At the dawn of history people are seen to pass articles from one to another by systems of weights and measures. With the lapse of time signs of real wealth were gradually adopted. Aristotle saw and expressed the distinction between true wealth and money.[1] When money was first coined, the rude Mint of the day belonged to the king or ruler; and money tokens were at first regarded and used as means by which taxes could be conveniently paid, and tribute rendered. The affairs of the State were thus first served by coined money, and afterwards commerce discovered in it a suitable agent for the exchange of goods. At a very early period we find the Greeks using two kinds of money, that of the State and that of the Market.[2] After coined money came into general use, efforts were soon made to multiply metallic signs of wealth. From the time of Solon and onwards, while the nominal worth of coins was retained, the amount of metal in the coins was gradually and systematically reduced. Though the economic principle was not perceived, yet was it then as now true, that the increase of real wealth necessitated a corresponding increase of money. When, for any reason, money could not be obtained, the same problem was encountered as that which at present so frequently presents itself whenever money is scarce. There might be a superabundance of real wealth, but, *media* of exchange being wanting, poverty and suffering followed. Thus, the worth of all other

[1] "Οτι μὲν οὖν οὐχ ἡ αὐτὴ οἰκονομικὴ τῇ χρηματιστικῇ, δῆλον· τῆς μὲν γὰρ τὸ πορίσασθαι, τῆς δὲ τὸ χρήσασθαι.—*Politics*, Book i. chap. 8. [2] *Vide* p. 155.

articles was made dependent upon one single article. Money, it is true, cannot make or produce real wealth; but given ample resources of land and labour, money or signs of wealth are demanded. The effort to supply such signs forms one of the most interesting and instructive chapters in the history of civilisation. History, indeed, shows how desperate were the means taken to provide money. Recourse was had to clipping and debasing coins, but these methods led to the direst results; and all historians therefore unite in condemning them.

2. It is a remarkable circumstance that among civilised States few efforts were made to symbolise real wealth by signs other than metal. In pastoral communities, or where methods of production were limited and the wants of the people few, representative articles other than gold or silver were, as Jevons shows, easily selected;[1] but in civilised States, *barter* being impossible, and money always more or less scarce, the inner history of many a bloody war may be traced to the absence of suitable means by which goods could be exchanged. "The uprisal of England, which resulted in the first dethronement of the Stuarts, was as widely and as vitally based upon economic causes as upon legal or religious—possibly, indeed, much more so, if we only knew it."[2] On the other hand, there is much truth in the statement that "the history of money might be made the guiding thread to the history of civilisation."[3] The adoption of *tallies* by the

[1] *Vide* p. 151.

[2] Vide *History of Currency*, by W. A. Shaw, p. 133.

[3] Vide *Principles of Political Economy*, by Professor Nicholson, p. 300.

Norman kings led in more recent times to the use of paper money. Modern commerce is largely dependent upon *paper* signs of wealth; and now gold is only employed to a limited extent in the exchange of goods. Gold panics are, therefore, "growing rarer and slighter, decade after decade, simply because people know better than ever before the distinction between wealth and the counters or symbols of it."

3. Special attention has been given in the following pages to the origin and development of the present monetary system. Well-attested facts are stated; but in addition an attempt has been made to trace the principles that lie behind and explain the outward movements. Nothing else in the history of money is more remarkable than the comparative ease with which monetary monopolies were secured, and the far-reaching effect of these monopolies on social problems. They were granted when political rights were withheld from the great mass of the people. Economics was then little understood; and public opinion, as now known, did not exist. Given, however, the politico-economic conditions under which the people then lived, it is difficult to see how any other course could have been followed than that which was adopted; but now that the conditions are changed, if the monopolies are allowed to continue, the blame must rest upon all who have political rights and do not use them for the withdrawal of monopolies. That is plain enough, but it cannot be emphasised too strongly. Abundant proof is here given that banks of issue have privileges that tell against the welfare of the people; and in dealing with the monopoly they enjoy there can be no danger of falling into what Professor Nicholson, in his complaint against socialism,

designates "an error of fact and historical perspective";[1] for the fact is beyond dispute that monetary monopolies were granted for political support which the most conservative judge would be obliged instantly to condemn under the Corrupt Practices Act; and our historical perspective is accurate enough when we recall the actual conditions under which the privileges were conferred.

4. An endeavour has been made in this work to define with as much exactness as possible some of the economic terms in frequent use. Progress, we believe, is impossible until the terminology of Economics receives more attention than has yet been given to it. There are, we know, writers who maintain that a consensus of opinion as to the meaning to be attached to economic terms cannot be secured, and some even go so far as to say it is not necessary. Professor Sidgwick homologates the view, first stated with prominence by Stuart Mill and adopted by subsequent economists, that exactness of definition is of little consequence. Sidgwick, however, states this view with more reserve than most of Mill's followers; he insists mainly upon "making our thoughts precise"[2]; but, so long as language is employed, how are the thoughts in one person's mind to be communicated to that of another if the terms that are used be not carefully defined? In all the physical sciences there is the utmost unanimity as to the meaning of the words employed; and not until Economics attains to a higher standard in the use of distinctively economic words, can progress be made or even expected on a large scale.

[1] Vide *op. cit.* p. 429.

[2] Vide *The Principles of Political Economy*, pp. 49–52.

II

Notwithstanding this drawback, the science of Economics has recently received a fresh and powerful impulse. Economists, perceiving the intimate relation between their science and social questions, have been obliged to re-examine and test their principles. On the Continent and in the United States, Economics has received special attention. The establishment of the London School of Economics is evidence that the science is rapidly gaining adherents in this country also. Economic and social studies have, indeed, of late made vast strides. The reasons for this extraordinary development are, partly, the many proposals that have been made for monetary reforms and a more equitable distribution of the fruits of labour. "What is wanted," to quote the words of Professor Richard Ely, "is a flexibility in the monetary supply, so that it may answer the varying needs of an industrial community."[1] The too rigid system that now prevails hampers the development of trade; and the inadequate supply of money calls for the adoption of additional signs of wealth. But that which has most of all given a strong impetus to economic studies is the urgency with which the claims of socialism have been pressed. "Socialism," says Professor Graham, "appeals in particular to political economy"; and he adds, "the decisive battle must be fought in the field of Economics."[2]

The social problem is closely identified with socialistic programmes. Socialists have, indeed, made

[1] Vide *Socialism, its Nature, Strength, and Weakness*, by Richard T. Ely, LL.D., p. 335.

[2] Vide *Socialism, New and Old*, by W. Graham. Preface, p. xxiv.

the subject their own. It is, therefore, impossible to do justice to the bearing of money, or of any other question, on social problems unless we start with a clear idea of the *abuses* against which socialists protest, of their *methods* and of their *ideals*. It is, then, of the utmost importance to understand what is meant by socialism. This, however, is not an easy task, for writers approaching the study of socialistic programmes with a bias against them have, perhaps not intentionally, but nevertheless really, given an account of socialism that is remarkable chiefly for its emphasis upon the exaggerations and extravagances of the more ardent socialists. Socialists naturally and with good reason refuse to accept this account. On the other hand, the advocates of socialism have frequently stated their claims in such a manner as to cause them to be instantly rejected by its opponents. Whoever, therefore, attempts to say what socialism is must, in the effort to avoid the Scylla, be on his guard against the Charybdis of the subject.

As a first step towards the right understanding of socialism, care must be taken to distinguish between inequalities and monopolies with all their fruits and the *methods* and *agencies* by which it is proposed to remedy the evils of the present industrial system. Now, socialism is more than a statement of the wrongs inflicted; it is a scheme of redress, and the promise of a perfect social state. It will be observed, however, that almost all writers who oppose socialism attack its methods of redress; few attempt to controvert its statement of the evils of which complaint is made. The recognition of this distinction is important; for one may go the whole length of socialism in acknowledging existing evils and inequalities, and

yet be unable to perceive how socialistic remedies would work out as practical measures. Hence, it is especially on the constructive side of their work that socialists are assailed; and here, most unfortunately, their methods are often dismissed with a sneer, and their final aims mis-stated. It amounts, for instance, almost to a travesty of the socialistic position to say, as Professor Flint does, that according to socialists the kingdom of heaven will come "by merely recognising the measures and methods of the production and distribution of wealth."[1] However much one may disapprove their method, it is unfair not to acknowledge that many socialists are as forward as Dr. Flint to recognise the ethical element in human life, and labour earnestly for the realisation of a right social state as a means to the development of the highest side of man's life.

"The ethics of socialism," says Mr. Kirkup, "are closely akin to the ethics of Christianity if not identical with them."[2] And, after a comprehensive survey of the history of socialism, he holds that "it is a most serious mistake to suppose that there can be any real antagonism between the ethical and spiritual teaching of Christianity, and the principles of socialism rightly understood."[3] Socialism cannot be saddled with the extravagances of a few of its advocates; and if in their demand for better conditions for the millions of bread-winners, they have sometimes unduly emphasised material things, it needs to be remembered that there are professed followers of Him who fed the hungry and healed the sick before

[1] Vide *Socialism*, by Professor Flint, D.D., p. 351.
[2] *A History of Socialism*, by Thomas Kirkup, p. 7.
[3] *Ibid.* p. 268.

He preached the glad tidings of the kingdom to them —who, while grasping enough so far as their own comforts and ease are concerned, lay little stress upon, and seem to care less for the material welfare of their fellows. These, indeed, do a great injustice to Christianity. It is, doubtless, their conduct that has provoked a protest on the part of socialists; and it is not, therefore, difficult to account for the apparently undue importance they sometimes attach to material welfare.

But the truth is, socialism rightly understood is concerned as much with man's well-being as with his welfare. Social discontent has moral causes, and the socialistic ideal is imperfectly understood if it be not seen that it implies the removal of monopolies, extortion, and greed—elements that are largely responsible for much of the suffering that exists. That there is a difference of opinion among writers on the social problem as to its ethical contents is admitted; but these writers include the opponents as well as the advocates of socialism. Some maintain that the question is mainly material, others that it is chiefly moral. Accordingly, then, as the one view or the other is held, the end towards which efforts are directed takes both colour and character, and the agencies adopted are either wholly ethical or wholly material. It needs, however, only a moment's reflection to perceive that this differentiation of the moral and material is unphilosophical and contrary to nature: unphilosophical because in the prosecution of ethical ends use must be made of material agencies; and opposed to nature, because there is no hard-and-fast distinction between the one and the other. Accordingly, Nature shows, by abundant illustrations, that she is the willing hand-

maid of the moral. Man on the one side being physical, and on the other side moral, it is not only impossible to attempt to minister to the wants of the one without also ministering to those of the other, but the highest good cannot be attained unless attention be given to the needs of the body and the aspirations of the spirit.

If Dr. Flint has been wanting in fairness when discussing the endeavours of socialists, he has, on the other hand, rendered good service by emphasising the moral moment of social and economic questions. "To the economists," he says, "wealth is not merely a material fact, but a human and social fact. It is not with wealth as a complex of external objects, but as the subject of human interest and of social processes, that political economy is concerned";[1] and again, when dealing with the subject in its practical aspects, he says "Economic Ethics is a very necessary and important branch of instruction at the present day."[2] The place which is thus rightly assigned to the moral side of economic studies and work lifts the social problem into a higher sphere. It gives the subject a more human interest, and raises the further question as to man's capacity for the highest kind of work and service. There may be socialists, like Bax, who go dangerously near vulgarising socialistic programmes by laying undue stress upon what is material, but the great majority of socialists are at one with the most advanced moralists. They believe in man's ethical potentialities, and that he is capable of reaching the highest stages of moral progress. The true socialist is, indeed, an optimist. He does not look backwards and endeavour to find

[1] *Op. cit.* p. 347. [2] *Ibid.* p. 349.

the golden age in the past. For him that age lies in the future, and he perceives it will come when the material and moral conditions are provided for its advent. Utilitarian philosophy, in the hands of Mill and Bain, may combine with the pessimism of some Christians,—if, indeed, a Christian can be a pessimist,—and hold that egoism is so deeply rooted in man's nature that it is a mere dream to hope for the moral progress of mankind on a large scale; for, according to the utilitarian theory of morals, example is the most important factor in moral development, and since there is so much evil in the world, moral progress must be extremely slow. Pessimism, too, finds a morbid pleasure in frowning upon all that is bright and hopeful in life. But these things do not greatly disturb those who believe in moral progress; and though it must suffer many a check, they are firmly persuaded that a united brotherhood, which will render altruism easy, is the key to human history. The testimony of history, indeed, is distinctly in favour of an evolution towards a more and more perfect state. The progress of a gracious Purpose that runs through all the ages is manifest enough; and that Purpose, however difficult at times to interpret, reveals nothing of retrogression. Professor Graham, in his work on socialism already referred to, entertains doubts whether socialists have good grounds for the hopes they cherish.[1] As their ideals are essential to the success of their schemes, it is instructive to note how the position of a critic of socialism like Professor Graham, agrees with that of its advocates; for he holds "that human nature has a certain affinity to justice,"[2] and "that the principles of the Gospels and of

[1] Preface, p. xxxiv. [2] *Ibid.* p. xli.

socialism are one and the same."[1] Now, there are few who maintain that the Gospels hold out a delusive hope when they teach men to believe that the kingdom of God will come, and His will be done on earth as it is in heaven. But what is it to believe this, unless it be to cherish the sure conviction that there is for mankind a future, righteous and bright? With the question how this state will be reached we are not now dealing, but only with the fact that man is gifted with potentialities of intellect and heart that make belief in the realisation of a right social state not chimerical, but wholly and altogether credible.

III

It is not enough to do justice to socialists by frankly recognising the spirit which animates them, the objects they have in view must also be understood. Almost all writers maintain that socialism cannot be satisfactorily defined, and that therefore its ideals cannot be stated. It is too elastic and protean to submit to any formulæ. It is, indeed, not a programme, but a tendency. "Our attention," says Professor Graham, "should be directed to the main topics and larger issues round which the battle must turn." These are—the chief economic categories; the production of wealth, its distribution; money and exchange; and the theory of value.[2] "Socialism proposes," according to Mr. Kirkup, "to accomplish on a wider scale, and for a more enlightened time, a task analogous to that undertaken by the guilds for the mediæval world."[3] The Pan-Anglican Confer-

[1] Graham, p. 248. [2] Vide *op. cit.* p. xxii.

[3] *Op. cit.* p. 284. Professor Nicholson is severe in his animadversions

ence of 1888 adopted a report which recommended the reunion of capital and labour through the principle of association; and this was held to be in the line of socialistic ideals. The question of competition is one of the main elements that enter into socialism. The advocates of socialism regard competition as responsible for anarchy and all that is precarious in the working man's life; its opponents hold that it is the salvation of society.[1]

Dr. Newman Smyth, in his *Christian Ethics*,[2] undertakes, after a study of the claims of socialism, to give a summary of its essential "notes." The problem, he says, is not that there is much social discontent, neither is it that there exists a vast amount of poverty, and much less is the essence of the problem found in "particular methods of our present industrial economy." Not in these things, he maintains, is the social problem discovered, but rather in the anonymousness of modern life, in the tendency of society to gather around two opposite poles, labour and capital, and in monopolies of land, of labour, and of place. Now, whoever takes the trouble to examine these statements must experience considerable difficulty in accepting Dr. Newman

upon mediæval Christianity, and what he calls the Church's "gigantic failure." But, on the other hand, Professor Sidgwick says that in primitive Christianity and to some extent in mediæval, slavery and private property were regarded as encroachments on the original rights of all members of human society, since men were naturally free, and the fruits of the earth naturally common.—*History of Ethics*, p. 121. This, it will be noted, is just the position of most socialists.

[1] "Competition of individual with individual has done more for the progress of society than all the authority and organisations which one set of human beings have made others obey."—Vide *Principles of Political Economy*, by Professor Nicholson, p. 431.

[2] Pp. 442–48.

Smyth's conclusions; for the anonymousness of modern life, and the tendency to gather around the opposite poles of labour and capital, are as much the effects of the present social system as are social discontent and poverty. All these are, indeed, the natural and inevitable results of that which lies deep at the root of the social problem, namely, MONOPOLIES. It is just because monopolies have been possible under legislative enactments, or at least with the apparent sanction of Parliament, that the social problem exists, and its perplexing phases are encountered. Remove the monopolies and you take away the chief causes of the social problem. This, however, is not easily done, for while, on the one hand, you have those whose sense of justice obliges them to protest against monopolies, on the other, you have the timid, as well as the defenders of the social order now obtaining, who allege that any change or changes that might be made would issue in a state of things worse than that in existence. A *non possumus* expresses the attitude of the latter; and though evils and sufferings are acknowledged by them, they counsel all who believe that a better social state is possible to rest satisfied with things as they are.

This soothing policy cannot, however, be adopted. Social discontent and poverty exist. Sufferers will not remain satisfied with a situation that deprives them of comfort and even of hope. The anonymousness of modern life is daily on the increase, and capital and labour are becoming more and more opposed to each other. Timid counsel and kindly advice cannot stay the evolution towards better and fairer conditions that is going on. Progress is the law of man's life; and all history proves that its motive power is a deep-rooted

sense of need. Reforms have always sprung from the oppressed and poor. Reforms, have, indeed, come to birth through suffering; and the more artificial the conditions against which the poor have struggled, the greater have been their pains; but whether the suffering be more or less, it is beyond controversy that a deep sense of justice, and a painfully drastic experience of oppression, have supplied both the motive power and the efficient agencies of all reforms.

Now, socialists aim at the sweeping away of all monopolies. To have granted monopolies, they hold, was an act of political injustice; to continue them is a moral wrong and a sin against a common brotherhood. How, then, can they be swept away? The scientific socialist, like Karl Marx, answers this question by saying you must go down to the root-principles of the present industrial system and build upon sound economic principles a social state in which monopolies will be impossible. But it is just on a question of economic principles that Marx and his school have been most assailed. In the scientific treatment of socialism Marx had to build upon some theory of value. He found what he believed to be an unassailable theory in labour. Ricardo had formulated this theory; in the hands of Marx it is made the foundation stone of socialism. Labour is the standard in terms of which all things must be valued. But almost all economists have condemned this theory.[1] The only writer of distinction who has

[1] "We cannot allow Karl Marx and the new socialists to assume as beyond dispute Ricardo's theory of value, which makes the comparative value of commodities depend on the comparative quantity of labour necessary to produce them and carry them to market."—William Graham, *op. cit.* p. xxv. *Vide* also Professor Marshall's *Principles of Economics*, vol. i. pp. 604 *et seq.*

attempted to defend it is Cairnes, "in whose hands," says Graham, "the innate impotence of the theory is unintentionally made manifest."

Now, though economists are noted for their reliance upon the authority of the masters of their science, and stake all upon it, as in the religious sphere Newman did when he found rest in the authority of a Church which he believed to be infallible, it is not for a moment to be supposed that one economist after another would so strenuously oppose the Ricardo-Marxian theory of value unless it were open to many obvious objections. The theory, indeed, cannot be maintained; for labour is too variable to be estimated with anything like exactness. Since, then, this theory is made the basis of socialism, it has been taken for granted that the whole fabric is shattered when the theory is disproved. This, however, is a hasty inference. It may be allowed that socialism must cast about for another and more defensible theory on which to build the edifice of an enduring social state, but it cannot be successfully contended that monopolies and inequalities must continue because socialists have set out from a wrong starting-point.

Upon what theory of value, then, ought all, whether socialists or not, who attempt to deal with social problems proceed? We maintain that an intelligible and defensible theory is found not in labour but in its products. Hill Burton, as we have shown,[1] wrote in 1849, "Real labour is not measurable by time, but by what it produces." When Burton penned these words he could not possibly have foreseen the stupendous claims that were ultimately to be made

[1] *Vide* p. 352.

to rest upon labour as the standard of value, nor could he have imagined what bitter controversies the adoption of this theory by socialists would originate, yet with singular precision he has anticipated the last and best results of the younger school of economists; for it is now generally recognised that a standard of value must be found in things that "make for life." "Utility," says Dr. Smart, "is always the source of value."[1] Professor Nicholson takes exception to Dr. Smart's statement, and rightly enough points out that we cannot express "the marginal utilities of sunshine in terms of price;[2] but this objection would at once be obviated if utility, as "the source of value," were limited to the products of labour; all the fruits of labour could then be stated in terms of money. With this modification a working principle could be found; and it does not require much insight to perceive what salutary changes might, by means of it, be effected within the social sphere.

We are not dealing in this work with the large programmes of socialists; but only with one monopoly, that of banking, and our brief references to socialism in its broader aspects are only made for the purpose of enabling us to see more clearly the contents of social problems. This having been done, it now remains to point out that the monopoly which the banks of issue have too long enjoyed ought to be withdrawn. This monopoly, as is shown in the following pages, tells against social welfare; for it gives a power to a few men that ought to be reserved for the Crown, and be exercised by Parliament for

[1] Vide Preface to Mrs. C. A. Malloch's translation of Wieser's *Natural Value*, p. xxiii.

[2] Vide *Principles of Political Economy*, p. 56.

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behoof of the people. Banks that have no rights of issue protest against this monopoly; but corporations and societies, able to offer good security, have as much claim to issue the fiduciary money of the State as banks can have. This monopoly, too, is one to which all social workers, whatever name they bear, whether socialists or individualists, ought to give attention. After dismissing socialism as impracticable, Professor Graham says the alternative to it "is to correct the evils of the existing system; to regulate the currency, especially the paper portion of it, more strictly; perhaps, as Jevons suggests,[1] to confine the issue of notes to a "single central State department more resembling a mint than a bank"; to prevent fraud and swindling by law — by a careful revision of the Companies' Act, perhaps by defining malpractices of the speculator, the cornerer, and the company floater, and declaring them criminal."[2] It cannot be too emphatically stated, nor insisted upon with too much persistency, that if, on the one hand, monopolies and inequalities exist and do injury; and if, on the other, the socialistic programme for the remedy of these cannot be accepted, then that which the most moderate economists hold to be necessary ought to be attempted. It is not enough to criticise socialism, to point out its false economic basis, and to condemn its methods of redress which are assumed to be unworkable. There must be some positive work possible. In the following pages we have shown wherein this work lies, and we venture to think that the most cautious of reformers can scarcely withhold their assent from the wholly reasonable proposals, first, to abolish the banking monopoly, and next to

[1] Vide *Money*, p. 341. [2] Vide *op. cit.* p. 225.

regulate the fiduciary money of the country in accordance with intelligible economic principles. No such principles guided the Legislature when the amount of fiduciary money was determined in 1844. Parliament proceeded in the most haphazard fashion. The needs of the day were assumed to be the wants of all future time; and thus the system was stereotyped.

The study of our subject has also shown that a standard of value other than gold or even labour must be adopted. It is not reasonable that all other articles of use and ornament should continue to be measured in terms of one article, however precious that article may be. The trend of things is, therefore, distinctly towards the adoption of a standard provided by the average price of a large number of articles in daily use. Strenuous opposition will, we know, be offered to the adoption of such a standard. Progress towards its realisation will also be slow; but it has the capital advantage of being supported by a theory of value that is founded in nature, is accepted by the more enlightened economists, and can be made a working principle by the selection of products of labour which make for life, and by ascertaining their average price. A change so great as the adoption of this standard implies, necessitates careful sifting and probably much discussion. It is not proposed in these pages in a dogmatic spirit, but it is offered as a contribution towards the solution of one of the most urgent questions of the day—a question which is everywhere exciting an ever-heightening interest, and demanding and receiving attention from all thoughtful minds. We are aware that proposals to abolish any long-enjoyed monopoly, and to adopt a standard of value

different from that in use, provoke opposition and cause a hasty run to the old masters for weapons of defence; but the progress of education is more than a match for any antagonism; and reflection shows that the implements forged by the old masters are of little use, since we are now dealing with entirely new conditions. "No doubt," observes Dr. Henry Dyer, "arguments can be brought against the socialisation of monopolies, or of common wants and conveniences, but if the progress goes on at the rate at which it is now proceeding, it will be completed while we argue. We may rest assured, however, that the rate will increase as education improves, and experience extends." [1] And, on the place which belongs to the old masters, Mr. Edwin Cannan makes the pertinent remark: "The subject-matter of the early nineteenth-century political economy is not wealth in its original sense of material welfare, but wealth in the secondary sense of material objects possessed of exchange value, or, at any rate, in the sense of commodities and services possessed of exchange value." [2] Monopolies favour a certain dignity and ease on the part of those who enjoy them, but justice does not dwell in the palaces they build, while the poor dare not enter their gates. The old masters were more concerned about "exchange values" than the increase of "the material wealth of the nation by introducing greater equality in the material goods enjoyed by individuals." But privilege is a contradiction of brotherhood; and a fair share of material goods, and freedom from "the pains of poverty and the stagnat-

[1] *The Evolution of Industry*, pp. 254, 255.

[2] Vide *A History of the Theories of Production and Distribution, from 1776 to 1848*, p. 394.

ing influences of excessive mechanical toil,"[1] are necessary to culture and moral progress. "The growing earnestness of the age," is, says Marshall, pressing these questions to the front. They must receive some answer; and the answer which will be most satisfactory is that which acknowledges the right of all men to live with comfort, and provides the conditions that make moral and intellectual attainments possible to all. These conditions will, we believe, be provided; but nature and history teach that they must come gradually if they are to be permanent. The kingdom of heaven does not come by observation. It cannot be said, "Lo here, or lo there is the kingdom"; but the persuasive influence of righteousness and kindliness that make sacrifices easy, is, nevertheless, everywhere felt. Every decade bears witness to vast improvements; and these, when rightly interpreted, must be taken as earnests of still better times to come.

[1] Professor Marshall, *op. cit.* p. 3.

CHAPTER II

THE PROBLEM

I

WHENEVER an inquirer sets himself to the task of trying to understand and rightly estimate the elements which enter into social welfare, he soon discovers that he deals with a difficult and many-sided question. The sufferings of the poor touch and evoke his sympathy. He sees clearly enough the vast amount of poverty that prevails, and the evils that affect society. He stands face to face with the hard, but incontrovertible facts of the statistician; and it is not surprising if he cannot at once find a solution of the perplexing problem presented to him. There are, however, writers who deny that poverty obtains to any great extent. They appeal to what they describe as "the comfortable condition of the working classes." They compare the lot of working men with that of their fellows of a past time. They point to the signs of prosperity as indicated by the Savings Bank returns; and thus conclude there is little ground for the oft-repeated statement that poverty prevails on a large scale. That the condition of the working classes is relatively improved every person allows. That many hundreds of the better paid

among them deny themselves of comforts for the sake of saving a little money is also admitted. But when the question of the actual amount of poverty and suffering that prevail is raised, a satisfactory answer can only be obtained by a reference to statistics. Fortunately these are now available. According to the *Labour Gazette*, 7·4 per cent. of skilled workmen were unemployed in 1894; and as there are about seventeen millions of such workers in the country, this shows that over one million were then without work. Add to this the vast crowd of unskilled workmen without employment, and the number of unemployed is seen to be most appalling.[1]

"According to various careful estimates," says Dean Farrar, "those who may be called the 'submerged classes,' or the 'army of the destitute,' are some three millions—one in ten of our people—a population equal to that of Scotland."[2] And, after a careful analysis of statistics, he states that "we have a population of over thirty-six millions, but of the population thirty and a half millions belong to the lower-middle and poorer classes, and their quota of the national income, as calculated by the most competent authority, shows a miserably small average for the total weekly expenditure."[3] In London alone there are eighty thousand paupers; and a half million "at hard grips with poverty."

No amount of general statements can gainsay these startling figures. The problems they present are of the gravest kind. And, indeed, just because

[1] *Vide* statistics prepared by Messrs. Giffen & Burnett in the *Labour Gazette*, Nov. 1895, p. 321.

[2] Vide *Social and Present Day Questions*, p. 10.

[3] *Ibid.* p. 29.

they are so grave, many remedies have been propounded; for thoughtful men are profoundly affected by them, and they have, therefore, striven hard to discover measures of relief. With more or less hopefulness they have enunciated theories and set in motion agencies which have frequently for a time promised aid, but hitherto no effective remedy has been discovered. Obliged to witness scheme after scheme failing, the impatient have fretted, and many of them have been reluctantly drawn into the ranks of revolutionary parties; but it needs also to be said, many, not impatient, have been far from abandoning hope. With a wider outlook and a clearer vision, the outcome of informed minds, and a firm conviction that righteousness must ultimately triumph, these have argued that, as apparently insuperable difficulties have already been overcome, there is ample justification for believing that the barriers which block the way to progress will be removed, and a more perfect state be realised. It is well for those whom hope thus sustains; for if optimism "tempered by due consideration" governs them, the task of discovering remedial measures will be more easily discharged, and a solution of the problems they have on hand more readily be found.

But hopefulness is not enough. Patient inquiry is also necessary. The poverty and sufferings that sadden the sympathetic, and perplex the thoughtful must be traced to their roots.[1] The time has, indeed, fortunately gone past when remedies for the evils of

[1] Dr. Eugen von Philippovich rightly observes it is not sufficient to collect statistics of social phenomena, it is also necessary "*die konkreten Tatsachen der realen Welt zu untersuchen, in ihnen den verborgenen Ursachen nachzuspüren und deren Wirkung festzustellen.*"—Vide *Über Aufgabe und Methode der Politischen Ökonomie*, p. 21.

the day were treated in an easy, offhand manner. History's pages must be read, and their contents submitted to a searching analysis; for, as Professor Edward Caird, the distinguished Master of Balliol, so often, with fine insight, teaches, "to understand the history of a thing is to understand the thing itself." History, too, must be perused philosophically, and the facts it reveals be handled after the scientific method. As elsewhere, so within the social sphere, specialism has become a necessity. But social welfare being a complex problem, its solution demands many workers. Each must inform himself of all that history and present-day facts teach, and so equip himself by patient study that he may be able to trace from its origin, and on through the various stages of its development, the subject with which he deals; for thus, and not otherwise, can a contribution be made to the solving of the questions that enter into social welfare.

II

Now, it is evident that *media* of exchange enter into the social problems of the day. They, indeed, tell upon them with a force and effect that have not been sufficiently taken into account by social workers. The production and distribution of commodities, while dependent upon credit, are also determined by the signs of wealth in use. Money has, therefore, a special interest, because it bears directly upon social welfare, and indirectly upon moral well-being.

In the endeavour to trace the bearing of money upon social welfare, it will be necessary to ascertain the origin and development of *media* of exchange;

to note the side-lights that history throws upon our subject; to examine the economic principles which have obtained at different periods; to inquire as to the changes that have frequently been made in *media* of exchange; to discover as far as possible what effect money has had upon commerce; to examine carefully the present monetary system; and to consider the question whether, having in view the vast and salutary changes that have taken place in all departments of science, progress be not also possible in Economics, and especially whether *media* of exchange in some measure equal to production ought not to be provided.

We propose, therefore, to apply the historical method to our subject. It has many advantages. There is, for instance, less likelihood of the mind being biassed under it than under any other method of inquiry. The sweep given to the eye is then far wider than that which any other method affords. When an extended field is surveyed, principles can, also, be more easily differentiated and facts more carefully classified. To no other subject, indeed, is the application of history's tests and corrections more urgently required than to the bearing of money upon social welfare; for, if this be not done, hasty generalisations are made, and offhand judgments are pronounced, with the result either that those who approach the subject with an open mind are apt to be misled, or that such as believe the present social conditions to be satisfactory enough are ready to conclude changes are dangerous, and therefore ought to be avoided. If, however, and with the object of obviating these conclusions, the historical method be followed, then, well-ascertained facts gathered from the field of

history, and submitted to the test of well-established economic principles, will indicate the path along which progress in Economics is possible; and this perhaps is all that can, for a time at least, be expected. The way for reform in monetary questions must be gradually cleared; and when once it is quite open, and people perceive how much, and to what extent money tells upon social welfare, reforms will not be long delayed.

III

To bring home to social workers the gravity and urgency of our subject, we outline the problem for which some solution must be found. Three things must be kept in view. *First*, it is claimed for our present monetary system that it rests upon a metallic basis, the metal being gold. *Second*, it is maintained that this is the only safe foundation for commerce, and the necessary condition of social prosperity so far as money bears on social welfare. This, therefore, raises the corollary, whether there be in existence, and at hand, a sufficient quantity of gold to bear the credit resting upon it. *Third*, there is a consensus of opinion among the more enlightened economists, that *media* of exchange ought to keep pace with production if further developments of industry and progress towards a better social state be contemplated. If for any reason *media* of exchange be wanting, commerce suffers, and that again entails want of employment and consequent distress.

These questions run into each other, and are interlaced. As to the first of them, it is a mere fiction to assume that our monetary system rests upon gold. It relies for support rather upon an

elaborate and complex system of credit, which is maintained by means of signs of wealth other than gold. Gold plays an important but subordinate part. The extensive use of credit bills, promissory notes, bank notes, etc., has far more to do with the maintenance of our monetary system; for if it were made to rest entirely or even mainly upon gold, it would soon collapse.

How well founded these statements are will be seen, if the amount of gold in use, and the vast fabric of credit presumably resting upon it, be considered. According to Mr. Clare, our whole stock of legal tender does not exceed £126,000,000, a half to two-thirds being "in actual circulation among the public," £50,000,000 or £60,000,000 being available for banking purposes. Mr. M'Leod says there are about £110,000,000 of actual coin in the country, and that credit to the amount of £10,890,000,000 rests upon them. Dean Farrar estimates the entire capital at £12,000,000,000; and £235,000,000 are, he says, yearly invested and saved. Mr. Leaver states that the chief London banks, exclusive of the Bank of England, hold cash in hand to the extent of £27,000,000, and that a debt of £227,000,000, rests upon that sum.[1] The estimate made by the Committee of Experts who recently issued their Report on Indian Currency is much less than that of those just cited; but coming from such financial authorities, it may be taken as upon the whole the most accurate. "In the United Kingdom," it is stated, "the amount of gold and silver available for purposes of currency is uncertain, but the Mint estimate of the gold in circulation is £91,000,000, of

[1] *Vide* pp. 316-320 for the further statement which is here summarised.

which the amount in banks—including that in the Issue Department of the Bank of England, and in other banks against which notes are issued—is stated to be £25,000,000."[1] The gold, the Report further explains, held by the Issue Department of the Bank of England, and that held by "the Scotch and Irish banks in respect of notes issued beyond the authorised limits, cannot be looked upon as an integral portion of the currency, since it cannot be used at the same time with the notes that are issued against it, but the amount is included in the sum of £91,000,000."

With these figures before us, is it possible to believe that the enormous, and almost unthinkable amount of credit upon which the commerce of the country rests, can rely with safety upon this scanty gold basis? Is there sufficient justification for maintaining, either, that gold exists in adequate quantities to allow *media* of exchange to keep pace with production, or that any possible output of gold from the mines can meet and satisfy all the legitimate demands of trade? The answers that must be returned to these questions strike deeply into the social problem of the day, and with far-reaching issues affect social welfare. All informed economists have replied to these inquiries in the negative. No other reply can, indeed, be given; and yet our monetary system, burdened with stupendous obligations, staggers on like a drunken man; and, like him, again, those who are responsible for its continuance, little reck the hardship and suffering inflicted.

[1] *Vide* Report of Committee on Indian Currency, p. 20.

IV

But since a metallic basis is so much insisted upon, and is held to be the *sine qua non* of our monetary system, it is necessary to look a little more closely at the supply of gold; how much of it finds its way into the legal tender of the country; at what cost it is produced; how far it meets the needs of trade; to what extent it varies in price; how far gold receives support from paper money; and to what extent paper money is used. We glance at these constituent elements of our subject in the briefest manner; for here we only aim at giving the merest outlines of our problem. It will be our business, as we proceed, to consider these questions in greater detail.

(*a*) The production of gold is every year on the increase. Professor Scharling computes the present production of gold, mainly from the African and Australian mines, at 15 per cent. above that of 1875–78, and the increase is steadily going on. According to Newmarch, eighty millions were imported between the years 1857–75; in 1856 there were also eighty millions in the country, but as thirty millions were used in the fine arts, the entire sum of gold coins and bullion in 1875 amounted to one hundred and thirty millions. But, according to Scharling, a large part of the production is being locked up in the war-chests of the great Continental Powers. The fine arts, too, are consuming more gold now than on former occasions. Mr. Preston, the Director of the United States Mint, in an interesting report on the gold supply of the world, recently published,[1] states that over two millions

[1] October 1895.

sterling are expended every year in Great Britain in the fine arts, and in the United States more than a million and a half for the same purpose. With, then, such a small increase of gold money, it cannot be maintained that the supply is adequate.

(*b*) But in the effort to find the gold there enters a question with distinct moral elements; for it is procured at a cost that far exceeds its worth, and under conditions which cannot be justified. Mr. Del Mar shows that the cost of production greatly exceeds its market price. Until free labour was introduced, he remarks, its cost could not be ascertained. For hundreds of years gold had been extracted from the mines by slave, or forced labour. Great quantities of the metal thus obtained, unlike other productions, continued in existence, and as the quantity in existence determined its price, a considerable time necessarily elapsed before the actual cost of gold could be found. Now, however, it is on reliable statistics proved to cost more than five times its market price.[1] As to the conditions under which gold is obtained, Del Mar has given a graphic description of the hardships endured. Lands are laid waste to get possession of it. Needless and unprofitable labour is expended upon it, and, after all, gold only ministers in a modified manner to man's wants. It can scarcely be said "to make for life"; and a qualified pleasure is at best given to those who use it as a means of securing the necessaries and comforts of life, to the miser who hoards it, and to those who adorn themselves with golden ornaments: for the first of these could be as efficiently obtained by other signs of

[1] Vide *A History of the Precious Metals*, by Alexr. Del Mar, p. 272 *et seq.*

wealth; the second is without justification, and is condemned by all moralists; and as to the third, it is most clearly estimated in the light of the teachings of Sir Thomas More's *Utopia*, a work of marvellous insight and remarkable prescience, where gold is only worn by slaves taken in defensive war, and by offenders against society.

(*c*) With gold, then, produced at such a wasteful expenditure of labour, and to an amount which, according to the highest estimates, does not put within the power of traders within the United Kingdom more than one hundred and thirty-three millions, it is difficult to perceive how credit can receive from gold anything but an inadequate support.

If all the gold taken from the mines found its way into circulation as money, credit might be strengthened, but since only a part of it is so used, the supply must be far, indeed, from the demand. This is everywhere recognised. "*Le commerce général*," says M. Allard, "*de la France a augmenté en moyenne, de* 8 *pour cent chaque année depuis* 100 *ans. Les valeurs mobilières—qui venaient, il est vrai, de naître —ont augmenté de* 26·366 *pour cent et tout le reste à l'avenant. Il eût fallu, dans la même proportion que les métaux précieux augmentassent en moyenne de trois milliards au moins chaque année tandis qu'ils n'ont jamais atteint le tiers.*" [1]

(*d*) Hence, the supply of gold being limited and inadequate, its price in the markets of the world is constantly varying. We are aware that objection will be taken to the expression *gold varies in price*, since it is held to be the standard in terms

[1] *La Crise Sociale, par* Alph. Allard, p. 16.

of which all other things are measured;[1] but that is a mere logomachy, for its price is indicated in the United Kingdom both by the advertised discount rate of the Bank of England, and by its average purchasing power, at one time more, and at another time fewer, commodities being exchanged for it. Its transmission, too, from one country to another is further evidence of its price varying. It is only exported or imported according as its purchasing power varies in the countries to or from which it is carried. During the month of October 1895, a quarter of a million of sovereigns was withdrawn from the Bank of England and transmitted to Paris. This happened on a day when the Cheque Exchange fluctuated between 25·19, and 25·20. The transaction naturally excited surprise among foreign bankers, seeing the bullion point was 25·12½, and to the uninitiated the transaction also seemed to imply a loss; but it was fully explained when financiers discovered that the gold had been sent to Paris for the purpose of lending on the Bourse at high rates. Again, the balance due by one country to another is seldom paid in gold, unless when it happens to be a source of profit to demand gold payments, and that likewise is an additional proof of the variations in the price of gold.

Those who question the above statements are

[1] Gold being coined into money is preserved at an arbitrary price; if it were demonetised, it would instantly fall as silver has fallen. Legislation, therefore, has given to gold an artificial price. "*Das in einem Zwanzigmarkstücke enthaltene Gold würde lange nicht den Werth haben, den wir ihm beimessen, hätten wir dem Golde nicht ein für allemal einen bestimmten Ausprägungs-und Notendeckungs-Werth dekretirt.*"—Vide *Das Geld-Problem und die Sociale Frage, von* Julius Hucke, p. 6.

under the obligation to explain away Adam Smith's words. "Gold and silver," he says, "like every other commodity, vary in their value, are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase. The quantity of labour which any particular quantity of them can purchase or command, or the quantity of other goods which it will exchange for, depends always upon the fertility or barrenness of the mines which happen to be known about the time when such exchanges are made."[1]

We shall have occasion to examine more minutely the question of the rise and fall of the price of gold, but meanwhile it is sufficient to point out that since, as all economists maintain, credit is the basis of trade, and the amount of money in circulation, or at command, affects credit, gold, being so scarce and constantly fluctuating, cannot supply such a safe and adequate medium of exchange as trade, and the social welfare of the people require.

(*e*) If, then, gold cannot and does not meet all the legitimate demands of commerce, how far does *paper* come to its aid? and to what extent is *paper* used as money? Now, it is a notable fact that there is not a single country in which commerce rests exclusively upon gold; for even in those countries which profess a metallic basis, paper money is largely used. All Governments either directly issue paper money, or authorise privileged corporations to issue it. Our own Legislature invests the banks of issue with the privilege of issuing £27,450,000 of fiduciary bank notes, behind which there are securities, but

[1] *Wealth of Nations*, vol. i. p. 42. All our quotations from the *Wealth of Nations* are taken from the edition of 1811.

not a single ounce of gold. The aggregate paper money of the United States amounted in 1893 to £210,000,000. In the same year France issued £132,000,000, Germany £68,740,000, Belgium £15,000,000, Holland £16,000,000, and Italy £57,000,000.

But in addition to these issues of paper money, most Governments also coin silver, and put their silver money into circulation as an aid to gold money. Germany has twenty millions of old silver thalers, and France has silver money to the extent of one hundred and forty millions in circulation. In both countries the silver is legal tender, and is accepted as freely as gold in payment of debts. This obtains even though silver as bullion is in price far below silver coins.

All these figures, great and startling at first sight, represent, however, only a fraction of the money in use, for traders have invented bills of exchange, letters of credit, promissory notes, etc., and these signs of wealth pass as money, irrespective of the theories of economists who still dispute as to what belongs to the category of money, and by means of them the trade of the world is almost exclusively carried on. Compared, therefore, with the amount of goods transferred from one person to another by *paper*, that done by gold is relatively small.

V

No intelligent person questions the great advantage accruing to the production and distribution of real wealth by means of paper. If, then, this be admitted, it must be possible, as Stanley Jevons

contends,[1] for the Government to put within the reach of the poorer classes some of the advantages which are thus reaped by the richer classes. The Government cannot, it is admitted, govern the demand for commodities, but it is able to regulate the supply of money. This, indeed, Parliament attempts. Notes are issued at present, as has been just stated, by authority of Parliament, and circulated as legal tender. The haphazard method adopted in the original issue of them cannot be regarded as rational. Some justification may, it is argued, be found for the Government of Sir Robert Peel in the circumstance that, he and his Parliamentary followers were under political obligations to those whom they invested with the extraordinary privilege of issuing the country's money.[2] There are, however, few who at the present day accept that circumstance as an adequate reason either for the course followed, or the privileges conferred. But whatever judgment may be pronounced as to the actions of the Ministers of 1844, the principle which justifies the issue of fiduciary notes is not touched. Without them trade could not be carried on. They are also absolutely necessary to the development of commerce. The welfare of the people requires them, for the supply of gold is quite insufficient.

The principle being recognised, it is now, therefore, open to social workers to raise and press the question as to the parties to whom the privilege of issuing notes should be given, the amount that should be issued, and the conditions under which they should be put into circulation. These are practical questions, and sooner or later the social reformer must address himself to their consideration.

[1] *Vide* pp. 87–88. [2] *Vide* p. 263.

Long before the nationalisation of land was mooted, or had become a plank in the platform of the more advanced politicians, Joplin, the author of the Joint Stock Banks, contended for the nationalisation of note issues. He argued that all notes in circulation should become Government money, and that banks should become indebted to the Government for their issues.[1] Joplin's scheme is ingenious, but chiefly of interest because it shows that when the Government of the day was contemplating the conferring of privileges on a few of their political followers, the wider question was raised as to who should have the right to issue the country's money. This, as we have just said, is a practical question at the present time. The privilege which banks of issue enjoy is indefensible. No person attempts to justify it, unless, perhaps, the holders of the privilege. The right to issue notes ought to be given to all who are able to offer the securities required; and the granting of the right ought to be a source of revenue to the Exchequer. There is no reason why it should be confined to a set of privileged bankers. Co-operative societies, or any body of merchants able to give good securities, ought to have an opportunity of offering for the right to issue notes. This is the first demand, as it is also the very least that should be made by all who have a care for the social welfare of the people.

VI

But the operations of the present monetary system, and the advance made by the science of Economics,

[1] Vide *On our Monetary System*, by Thomas Joplin, pp. 6 *et* 60 *et seq.*

raise larger and wider questions that bear directly upon social welfare. Does the system represent fairly the highest development in the exchange of commodities, and is it final? What of truth is there in the claims of socialists who hold that paper money can serve all legitimate ends in the exchange and distribution of goods? How is the wealth of the country estimated? As progress has been made in the use of *media* of exchange, is it not also possible with respect to the standard of value? And what influence will a system representing the highest attainments in the science of Economics have upon social welfare and the moral well-being of the people?

1. In answering these questions, account must, unfortunately for the progress of Economics, be taken of the traditional economist. Wearing the garb of an economist of the last century, and speaking with his accent, his thinking is also bounded by time-worn and hackneyed economic phrases. His mind, indeed, seldom travels beyond the limits laid down by the old masters of Economics. There is, therefore, nothing which he dreads so much as a new departure. It is unsafe. There are no precedents for new developments; and not unnaturally he looks askance at any effort which has for its object to make his science accommodate itself to the present-day conditions under which trade is carried on, and the welfare of the people affected.

It is claimed, as against this somewhat irrational position, that if departures from the well-beaten track in any of the sciences whose path has been marked by brilliant discoveries, had deterred the patient worker, all progress would have been at a standstill, as it is, indeed, in the far East, where stereotyped

methods prevail. Within the province that belongs to the economist, a change or departure is, however, only justifiable if it rests on well-established facts, and makes for greater progress; and therefore we say, in the *first* place, that upon this ground alone can improvements be made upon the present monetary system; *secondly*, that we take credit to be the basis of commerce, and therefore ultimately of social welfare; but credit itself rests upon the natural resources of the country, upon industry, and upon a convenient medium of exchange, the last of these being as essential as the two former; for if it be wanting, they avail little. *Thirdly*, while money does not, and cannot of itself create trade, yet it must be at hand, and is, therefore, necessary to supply the needs of commerce.

2. Having, then, these governing economic principles in view, what can be said for the practical claim that the present system represents the highest development in the exchange of commodities? There is nothing that its defenders so frequently reiterate as that the system is old, that it has stood the test of time, and that, therefore, changes are dangerous. However much disguised, this practically amounts to the claim that the present system is the best that can be devised, and is for that reason final. We shall have occasion to point out the significant facts, well founded and beyond controversy, that the system was adopted when political rights were withheld from the great mass of the people; that Economics was then in its infancy; that though the conditions of modern times are very different from those of fifty years ago, and though all other sciences have accommodated themselves to the changed circumstances, the mone-

tary system, which was assumed to satisfy the conditions of the time when it was adopted, is still held to contain, and offer all that is necessary for commerce and social welfare. How great the changes are that have taken place, is seen when it is stated that, in the transference of commodities from one person to another, gold is now seldom used. Though still the inflexible standard of value, it is only on rare occasions the medium of exchange. According to M'Leod, only one per cent. of business is transacted by gold, all the rest being done by paper. This is, perhaps, too low an estimate; but the figures we have given prove that a very small percentage of coin transactions takes place.[1] Mr. Brough, in his interesting work on *The Natural Law of Money*, estimates that ninety-five per cent. of business obligations in New York "are settled entirely by the exchange of cheques and balancing of accounts, no other medium being used."[2] Mr. Fonda says that statistics gathered from National Banks in America in 1891 "showed that of the total deposits ninety-five per cent. were in forms of credit, to five per cent. in actual money, the percentage of credit paper rising in New York City as high as 97."[3] The former writer, however, argues that the extensive use of paper money is only safe when it is in the hands of individuals; that Governments cannot issue such money with safety, or with the profit that traders reap; for Government issues lack incentive to profit,[4] that is, it is not subject to the manipulations of money

[1] *Vide* pp. 316–317.
[2] Vide *The Natural Law of Money*, by William Brough, p. 69.
[3] Vide *Honest Money*, by Arthur I. Fonda, p. 38.
[4] Brough, p. 76.

dealers; yet he instances the Canadian Government issues, and allows that the system which obtains in Canada is better than that of the United States;[1] and he gives a still further illustration of the use of paper money, by stating that the American Hoarding Panic of 1893 was averted by the people making their own money.[2] This money, he maintains, the Government ought to have supplied; but while Congress hesitated, the people took the solution into their hands, and settled the question, "ignoring the laws that made such actions a penal offence."

3. Since, then, paper money is thus extensively and advantageously employed, what of truth is there in the claims of socialists that such money can serve all the ends of the exchange and distribution of commodities, and that a time must come when it will be adopted in all civilised countries? Here it needs to be said that one cannot name the word *socialism* without a word of apology, for otherwise his utterances are sure to be misinterpreted. We have, however, no apology to offer. Socialism is a fact, and cannot be disregarded. Whether many agree with socialists or not, does not much move them. Having faith in progress they contemplate the future without misgivings, believing that their principles will ultimately prevail. There is, however, no class of reformers so little understood as they. The extravagant pretensions of the more ardent among them, and the revolutionary methods which these occasionally advocate in the prosecution of their ideals, may account in some degree for the misunderstanding. There cannot however, as history proves, be any great movement without much of extravagance

[1] Brough, p. 105. [2] *Ibid.* pp. 157–159.

and exaggeration which the more cautious regret. Socialism has certainly suffered in this respect, but that should not prevent an unbiassed and impartial examination of its claims.

We are not concerned with the whole programme of socialists, but only with that part of it which has to do with the medium of exchange of goods and the standard of value. The strength of their position rests upon its being a reasoned induction from well established facts. In arguing for a Government issue of paper money bearing a definite, and not a haphazard proportion to production, they contend, in the first instance only, for an extension of a principle that already obtains.[1] If trade could be carried on without the issue of fiduciary notes, or if the Government had not already made such an issue, it might be difficult to show upon what grounds their claims rest; but the principle has been tested by experiment. "The fiduciary issue of notes by the Bank of England and other Banks at the close of 1892 stood at £27,450,000."[2] Notes are also issued as against gold held in reserve. These notes and the gold they represent cannot, however, be in circulation at the same time. The whole amount of gold, according to the Committee on Indian Currency, held by the banks seldom exceeds £25,000,000. The actual

[1] "*En général, les banques d'émission maintiennent entre le chiffre de l'encaisse et le chiffre de la circulation du papier une proportion du simple au triple. C'est, du moins, la règle à laquelle la Banque de France a toujours cherché à se conformer. Ainsi, en temps ordinaire, pour un numéraire en caisse de* 300 *millions, elle laisse entre les mains du public pour* 900 *millions de billets de banque. Elle suppose qu'elle a assez de crédit pour devoir au public* 900 *millions, alors qu'elle n'a pour le payer que le tiers de cette somme.*"—*Le Billet de Banque Fiduciaire, par* Arthur Legrand, p. 4.

[2] Indian Currency Report, p. 21.

amount of gold is, therefore, less than the authorised fiduciary money, which relies entirely upon securities, and has not a single ounce of gold behind it.

Now, however much a monetary system which rests upon these scanty supplies may operate in the interests of the few, it cannot be held to give ample guarantees to traders, or provide for the increasing interests of commerce. A larger supply of money is demanded; and since the fiduciary notes in use rely upon securities, and not upon gold, the Government, being strong and stable, can surely give as good securities, and issue its own money, in a definite proportion to production. For a time a small reserve of gold might be advantageous, but even that is not absolutely necessary. The Government's credit is good enough to bear a heavier weight of fiduciary money, and its revenue is a sufficient guarantee that the notes would pass from one person to another in the exchange of goods. But so far from the Government attempting to develop such a monetary system, its policy is stereotyped by the Bank Charter Act, and the policy is retrograde; for instead of providing for an increase of fiduciary money as the population grows and commerce increases, the original issue, which stood at £31,859,424, has decreased to £27,450,000.

Either the original issue was too great, or that of the present time far too small. That it was not too great is proven by recurring periods of commercial depression, one of the causes of which, most authorities hold, being scarcity of money, or money not easily obtainable at reasonable rates of interest.

But in addition to the precedent set by the issue of fiduciary notes, the case of a country like Canada

may be cited as an illustration of what the Government ought to do. Canada, the Indian Currency Committee point out, has neither a gold currency, nor a mint for gold. The Dominion issues about £7,000,000 fiduciary notes.[1] Addressing the Scottish Geographical Society,[2] Sir Charles Tupper said: "Canada's position had undoubtedly been improved by the prudence of her commercial men and the soundness of her banking system. Perhaps the greatest factor in the situation had been the circumstance, as they were recently told by the President of the Bank of British North America, that 'Canada banks on her own capital, and does not borrow money, as so many colonial banks do, on deposit, which generally falls to be repaid at most inconvenient times.'"

If, then, Canada can issue such a large sum, relatively to its population and trade, and if under the conditions which this issue provides, it is prosperous, much more might our Government issue its own money. If it were issued in sufficient quantities, commodities would pass from hand to hand, production would be stimulated, and the tottering fabric of credit resting upon an altogether insecure gold foundation would cease to alarm the thoughtful economist. The trend of things is certainly towards the further use of fiduciary money; and if the supply be steady and in a definite proportion to the increase or decrease of real wealth, a great benefit would be conferred upon traders, and an important step be taken towards the ideal of social workers.

4. But this contention raises the question, How can the real wealth of the country be ascertained?

[1] Nov. 13, 1894. [2] *Vide* Report, p. 22.

What is the standard by which its amount can be estimated? Hitherto gold has been taken as the standard. The wealth of the country is reckoned by its volume. If a great quantity be in the country, the country is said to be rich. This, however, is such a manifestly inadequate test of the wealth of the country, that in theory, at least, it has long been abandoned; for even the merest tyro perceives that the real wealth of the country is far greater than the amount of gold in it. But though this be so apparent, it must not be assumed that the wealth of the country is no longer estimated by the amount of gold in the coffers of bankers, or in the hands of the people. Referring to a time when this view was held in theory, as now it is still in practice, Buckle observes: "It was believed that wealth is composed entirely of money; and that it is therefore the essential interests of every people to import few commodities and much gold. Whenever this was done, affairs were said to be in a sound and healthy state; but if this were not done, it was declared that we were being drained of our resources, and that some other nation was getting the better of us." [1]

There are writers who still compliment us that our exports are larger than our imports, on the ground that these exports imply a larger return of gold. But export of goods does not mean that debts are always paid in gold. Gold is, indeed, seldom used. Commodities are exchanged for commodities, and where it is impossible to find exchangeable goods, paper signs of wealth are largely employed. Gold, however, is earnestly sought. Fair lands are wasted,

[1] Vide *History of Civilisation in England* by H. Buckle, vol. i. p. 210.

and needless expenditure incurred in the eager haste to obtain it. We also confine thousands of men and women in unwholesome factories to secure a large return of gold, but it comes at best in small quantities. It would certainly be infinitely wiser if we cultivated our fields,[1] gave to workers healthy employment, and took out of the land its natural produce. Mr. Blatchford has shown at great length, and with abundance of proof, that there is sufficient land in the United Kingdom to grow all the wheat, corn, etc., that the people require.[2] Mr. James Long quotes the testimony of Sir John Lawes, who in 1879 wrote: "No one, I suppose, can doubt that the soils of this country are capable of producing very much more wheat than they do at present, if not, indeed, all that is required to support the population." And on his behalf Mr. Long says: "Since the above words were written, our population has largely increased; but even now it is probable that with our still more improved methods, we could produce all the food necessary to support it."[3] But instead of turning our attention to these practical questions, we are content to estimate everything in terms of gold. It is our Diana; and the wealth of the country is still held to be synonymous with its volume. Gold is, therefore, taken as the standard of wealth, and all articles of consumption and use are measured by it.

5. But this condition of things cannot always continue. Economists as well as socialists are slowly but steadily coming to perceive that a standard other

[1] "We have 2,000,000 acres of arable land gone out of cultivation."—J. H. Howell in *How Bimetallism will affect the Working Class*, p. 12.

[2] Vide *Merrie England*, by R. Blatchford, pp. 28–36.

[3] Vide *Nineteenth Century*, Jan. 1896: Article, "Can the Empire Feed the People?"

than gold can be found and adopted. The measure of the country's wealth is just the amount and value of all commodities that make for life. One article, and that not the most useful, cannot have given to it the exclusive right of measuring all other goods. The social evolution which is ever towards saner methods and higher ends must carry Economics onwards. Since the time when the genius of Joseph Lowe and Poulett Scrope—like that of the illustrious Halley in the field of astronomy, who in 1705 guessed the orbit of comets, a guess which in the most marvellous manner was verified fifty-three years afterwards—conceived the idea of a new and natural standard of value, until the present day, many distinguished economists have set themselves to the task of showing that a new standard is possible and practicable. According to Karl Walcker, "progress in this direction is only a question of time."

The labours of Jevons, Marshall, and Arthur Fonda have done much to expiscate the question. But a great mistake would be made if it be assumed that a change can be easily or soon effected. The forces in operation are too great to justify the hope of a speedy reform. We are, therefore, far from miscalculating the strength of the opposition to any change; but we are also equally far from sharing the spirit of impatience which many who see the evils that are wrought under the present system entertain. We firmly believe that facts and arguments must ultimately make for a new standard of value, and that the highest social welfare demands it. The exchange of goods can certainly be effected by reference to a standard other than gold, in terms of which their prices may be expressed.

But as showing something of the opposition that must be encountered, and at the same time how indefensible it is, a typical illustration may be selected from the writings of Dr. Smart. He is one of the younger writers, greatly influenced by the spirit which Ruskin has infused into Economics. He is even bold enough to acknowledge that "political economy has been relegated to Saturn, and with strange consequences"; yet he holds that gold, which "to-day exchanges for 66 per cent. more of things in general than it did some twenty years ago," and silver have more qualifications for preserving "over periods of time the same general purchasing power" than "any other mere commodity."[1] Gold and silver, he contends, "are the commodities which come nearest to having the conditions of stability. These conditions I imagine to be constancy of supply, relative to constancy of demand."[2] But this constancy is just the very thing which he elsewhere says is lacking, for "the general state is that there is too little of it," *i.e.* gold, "to do the money work as it should be done"; and, again, "hard experience," he says, "has gradually been teaching us that there is a limit to Economics, even of gold, and that we cannot go on adding indefinitely to its work without a peculiar result, which may have very far-reaching consequences.[3] Dr. Smart thinks that "the throwing of the money work on one money is a natural and necessary development of civilisation." Either gold alone, "or gold and silver bound together," will be the universal medium of exchange. "After some years of steadily falling prices, of

[1] Vide *Studies in Economics*, by Wm. Smart, LL.D., p. 155.
[2] *Ibid.* p. 148. [3] *Ibid.* p. 169.

depreciating property and falling rents, and gigantic strikes against the inevitable reduction of money wages, of redistribution of the debtor and creditor classes,—in a word, of terrible suffering to those actively employed in industry," gold, or gold and silver combined, "will become 'the universal third commodity.'" But whether the work of the metals will be done "well or ill, will depend on the possibilities of its increase."[1] Dr. Smart, however, scarcely entertains any doubt as to what the supply of gold will be, for he homologates Sir Robert Giffen's forecast, that "the world must lay its account with the scarcity of gold relative to the increasing need for it"; and he also believes that the maximum of credit bills, and other paper substitutes resting upon gold, has been reached. Bagehot, and indeed most writers who have carefully studied the subject, we may parenthetically observe, believe that the maximum has been more than reached; for, as they point out, the amount of paper money resting upon, and presumably payable in gold, is simply appalling, and constitutes a public danger.

Now, as we have said, Dr. Smart may be taken as representing a certain class of writers. He belongs to the younger school of economists. He has caught something of the spirit of the greatest modern teacher of Economics. He is also in sympathy with the industrial classes, and has rendered good service in analysing the root principles of social movements. But, unfortunately, the influence of the schools has told too much upon him. Like the class he represents, while breaking away from many traditional positions, he is yet trammelled by theories which make

[1] Vide *Studies in Economics*, p. 157.

the highest kind of work impossible. His mental perspective must have been greatly blurred, otherwise he could not have put together so many contradictory statements as those just quoted. How, for instance, can there be constancy of supply of gold relative to the demand when gold is acknowledged to be so scarce as is indicated by its higher purchasing power? Or how can gold and silver be the universal *media* of exchange when less than 5 per cent. of business transactions are carried on by means of it? How, under such conditions, does the use of one of these *media* mark the highest state of civilisation? Or, what is still more serious, how can any economist who is in sympathy with the struggles of the toiling millions rest satisfied with a standard of value so variable as that of gold, and in its variations producing so much injustice? To predict a long series of years marked by falling prices, low wages, and terrible sufferings to industrial producers, and next, to contend that gold, or gold and silver, must be the universal *media* of exchange, while at the same time allowing that their efficiency is dependent upon the amount of the metals taken from the mines, and also acknowledging that the amount at the disposal of commerce is decreasing relatively to the needs of a growing population and trade, is both to supply the strongest and clearest evidence of the contradictory positions laid down, and to prove that the class of writers who are wedded to these indefensible theories cannot relieve the distress that evokes their sympathy and urges them to mental effort. That writers in touch with social movements should see so obscurely or rest satisfied with the present money system, and that, too, in view of the practical objec-

tions to the system, and the evil for which it is largely responsible, is proof of the difficulties that lie in the path of social workers. The difficulties are paralleled by those of modern philosophy; for the question which philosophers are discussing, and have not yet solved, is, how to hold by the earlier idealism of Kant, and yet give a place to specialised researches in history and nature. That the researches of science have modified Kant's idealism is admitted, but how to bridge the gulf has not yet been discovered, notwithstanding Lotze's distinguished labours. So, in Economics, the economist has to reconcile old theories with well-established facts that contradict his theories. It may, however, be safely predicted that, as in philosophy facts of history and nature must ultimately prevail, so in Economics, also, a large place must be given to principles based on facts; and the standard of value must be found not in gold alone, nor in labour, but in that which is produced by labour, and makes for life.

CHAPTER III

THE RELATION OF MONEY TO SOCIAL PROGRESS

I

THE field within which economic principles operate and social interests lie is very wide. The problems it contains are of the profoundest interest. These problems have long baffled the efforts of the most enthusiastic economists and social workers; nevertheless they possess a perennial fascination for all who approach them. With the object of solving them, principles apparently logical enough have been enunciated, but the many-sided and ever-changing economic and social problems have refused to accommodate themselves to these principles. Workers have, therefore, been thrown back upon their own, and the resources of others, to discover if possible the *hiatus*, or that which has been at fault in their theories. Now, it is manifest that if justice would be done to the many subjects lying within this wide field, a clear historical outlook, a mind unbiassed by prejudice, and capacity to make accurate generalisations from the *data* supplied by recent investigations, are all desiderated. There are, however, many difficulties, both in the subjects themselves and in the avenues leading up to them, that must be overcome. The subjects are, for instance, more or less abstruse,

and have not yet been mastered by the great mass of the people deeply affected by them, while the path is also blocked by those who are in fairly opulent circumstances, or are satisfied with the present condition of things, or rest upon mere authority; for in Economics, as elsewhere, dogma enunciated by men bearing distinguished names has a determinative influence. "*Thatsache ist*," as Backhaus observes, "*dass jede neue Wahrheit zuerst nur ein sehr winziges Häuflein von Bekennern findet, und diejenigen, welche man für weise hält, ihr gewohnlich weit eifriger opponieren, als die Narren.*"[1] These difficulties, then, must be encountered, and no one acquainted with the history of any great movement will readily underestimate them; but however great the difficulties, they cannot be taken as an adequate excuse for not handling the clamant questions of the social problem, nor should they be allowed to deter us from making a thorough examination of our subject, and seeing, if possible, wherein a solution of it may be found.

The social question is the question of the day, and is a veritable *quæstio vexata*. It demands attention. The best minds have been drawn to its study; and that not because it deals with material things only, but because it is ethical, and aims at better conditions for the development of the moral side of man's being; for, rightly understood, its ultimate object is not condition but character; the safeguarding of the rights of the individual, that the highest good, the טוֹב of the old Hebrew prophets, the *τὸ ἀγαθὸν* of the Greeks, the *summum bonum* of the Romans, may be secured.

Many solutions of the social question, more or less satisfactory, have been propounded; but hitherto the

[1] Vide *Schutt und Aufbau, von* Wilhelm Backhaus, p. 99.

bearing of money and monetary problems has not been sufficiently recognised. There are, indeed, political reformers whose historical outlook is not equal to their enthusiasm, that deny to money and the laws which regulate its distribution any direct bearing upon social welfare, while many others turn to the subject, having nothing beyond an academic interest in it; but the direct and vital relation between money and social welfare is at once perceived if the testimony of history be listened to; for money has from the earliest ages played an important part in the development of States; and false conceptions of its use have "produced innumerable wars and other calamities."[1] The political reformer, therefore, who puts aside the question of money, neglects one of the most powerful factors in the political and social sphere. As much, therefore, as any other subject it ought to have his attention, and find a place in his programme. It is, moreover, a definite subject, and in its consideration all the advantages that come from having a definite subject on hand are reaped and enjoyed. In this respect, indeed, it differs from many others which appeal to those who are attracted to the social problems of the day. Most people discover that when they turn to these problems they can easily recognise the evils that exist, and the vast amount of suffering that the poor endure; but the enthusiasm, not yet tempered by experience, which is at first awakened, soon dies out when the apparently impassable barrier is reached, and they have to confess that no practicable measures are devised which they can adopt and support. This objection cannot certainly be urged against the mone-

[1] *Vide* H. D. M'Leod, *A Policy of Free Exchange*, p. 14.

tary laws of the system now obtaining; for the system which regulates commerce and directly tells upon social welfare is the outcome of definite legislative action; and when it is remembered that Sir Robert Peel stereotyped the system during a period of intense political strife and bitter partisanships, at a time, too, when the influence of money-dealers was politically far more powerful than that of the working classes, it will be seen that the question of money and the laws which regulate it afford definite work for all interested in the social problems of the day. The direct relation between money and these problems is, indeed, the very strongest, as it is also the most practical justification for giving to our subject close and careful attention.

A few sentences are only necessary to show how money bears upon the social conditions under which we live. The things, for example, required for sustenance and comfort, and which provide fair conditions for moral progress, are multiplied by labour, and pass from hand to hand if money be plentiful, but if scarce, distress, suffering, and privation follow. We know, of course, that the trade of the country is dependent upon credit, and only indirectly upon the amount of money in circulation; but nothing affects credit so quickly as the plentifulness or scarcity of money. The operations of the money market are subtle, and influenced by many distant movements; but in the last instance, that which tells most of all upon them is the quantity of money which is at the service of commerce: if scarce, the lack of it influences credit; and want of credit issues in forced sales to meet present and pressing obligations, and that again in a limited production of commodities—*and in poverty*. It is

nothing other than this state of things which accounts for the demand made by bimetallists and others for more money. This demand is being more and more insisted upon, and is being frequently repeated. Professor Robert Wallace holds that "many reasons have been advanced to account for the prevailing unsatisfactory condition of things—over-production, increased facilities of transport, speculation, and bad legislation, with other minor grievances; but not one, nor all of these could account for the present difficulties. General trade, as well as agriculture, suffered from the evil influence, whatever it might be"; and he adds, "the all-pervading influence for evil" is to be found in "the disjointed condition of the currency systems of the nations," and that "until means were devised for the satisfactory adjustment of purely currency difficulties, there would be little hope of a return to agricultural prosperity."[1] The demand for money is urged in still more vigorous language by Mr. J. P. Heseltine. At the close of an elaborate defence of bimetallism, he asks: "How long will business men in London remain in culpable ignorance of the causes of this want of prosperity,

> 'Warm nestled in the down of prejudice,
> And be content . . .
> . . . to hop about from perch to perch
> In paltry cages of dead men's thoughts,'

boasting almost that questions of currency are beyond their comprehension? Will they wait until some fresh and crowning disaster opens their eyes when too late? Will they wait until England shall have lost her pre-eminence in commerce and in

[1] Opening Address, Edinburgh University, Oct. 1894.

finance?"[1] Professor Wallace recommends the study of "the economic question of currency to be able intelligently to assist in the general movement for its resuscitation, which cannot now be long delayed"; and Mr. Heseltine advocates bimetallism as a means for putting more money at the disposal of trade.

II

But money is not plentiful or the reverse by haphazard. The Legislature has, as we have stated, passed monetary laws which are intended to regulate the operations of bankers. These laws affect to a large extent the money market. Employers and labourers are in the longrun bound by them; and in the transference of commodities from one person to another they enter as most important elements, determining the amount of trade that is carried on.

But while commerce is to a large extent regulated by the laws which have been placed on the Statute Book, there is abundant historical evidence to prove that the laws have been made in the most haphazard manner. The Bank Charter Act of 1844, for instance, which Sir Robert Peel described as the complement to his Bill of 1819, was hurried through Parliament during a panic; and legislation the result of panic is seldom wise. The immediate results of the operations of this Act proved that, so far from bringing about a better condition of things, the legislation plunged the country into deeper depths of confusion, and produced a monetary crisis of the most appalling kind.

The history of the social conditions of this period

[1] *Nineteenth Century*, Sept. 1894.

is the history of commercial disasters, the failure of country banks, a widespread depression of trade, and accentuated sufferings among the working classes, and the poor.[1] The Act was only in operation about twelve months when a monetary crisis threatened the country, a crisis which issued in 1847 in the suspension of the Bank Charter Act. On all sides it was recognised that the prevailing distress demanded a searching investigation. Committees of both Houses of Parliament were, therefore, hastily appointed to inquire into the causes of the panic. No severer commentary could be made upon Sir Robert Peel's legislation than that which the hasty action of the Commons' Committee supplies. The Committee held nineteen meetings. Of those who voted in support of the Act of 1844, one member did not attend any of the meetings, two were present at four, one at five; while of those who opposed it, none attended less than twelve of the nineteen meetings; and ultimately the report in favour of the legislation just enacted was carried by a bare majority of two. "Seventeen witnesses," says Mr. Duncan, "were examined before the Committee; of these, thirteen condemned the Act of 1844, and its four supporters were three directors of the Bank of England who supported their own monopoly; and Mr. S. J. Loyd, its real author."[2] But as further proving the haphazard character of the legislation of 1844, we have also the testimony of a writer like Dr. Shield Nicholson. Speaking of the functions of money, he says: "If we were to lay down at the outset a definition

[1] *Vide* Sir Archibald Alison's *England in* 1815–1845, third edition, published during the crisis, pp. 99–103.

[2] Vide *The Bank Charter Act*, by Benjamin Duncan, p. 9.

of money which included convertible bank notes, and were then to argue . . . that an increase of bank notes would lower the value of money, we might happen to speak the truth, but unless more circumstances were taken into account, we should only speak the truth by accident. Yet reasoning of this kind prevailed in making the most important law ever made affecting the paper currency of the country." [1] The writer gives a qualified approval to the Act of 1844, "but," he says, "no one now will defend the reasoning by which it was supported by its promoters."

It does not lie within our province to discuss at this stage the Bank Charter Acts of 1844–45, nor do we at present attempt a pronouncement upon their merits. We note only, that from the date of their inception till the present day, a large part of the money in use, and therefore the means by which articles of commerce are exchanged, and the conditions under which trade is carried on, have been deeply and widely affected by these Acts. Nothing but astonishment can be expressed, that a thoughtful writer like Mr. Bagehot should have claimed to deal with, and explain the money market without reference to what he designates "the Peel Acts." [2] In this respect he stands alone, for all other writers, whether they approve or disapprove of them, are obliged to consider their bearing upon the monetary problems of the day; and, indeed, there is not a single writer of any note who attempts to explain the money market apart from these Acts. Mr. Bagehot is a

[1] *Money and Monetary Problems*, by Professor J. Shield Nicholson, p. 15.

[2] Vide *Lombard Street: A Description of the Money Market*, p. 2.

conspicuous exception. With him they do not form his *terminus a quo*; but the effort to give an account of money without considering "the most important law ever made affecting the paper currency of this country," is as reasonable as if one were to attempt to discuss the higher mathematical problems, without troubling himself to inquire whether the first principles of the science were defensible or not; or as if one were satisfied with knowing that the chain which holds the ship riding in the storm is strong enough, without concerning himself as to the security of its moorings; for the truth is, the money market, and the complicated conditions under which trade is conducted, cannot be understood apart from the Acts which authorise and regulate the bankers' operations. This is also the judgment which many merchants have formed respecting them, for at recurring periods we find Chambers of Commerce—not generally recognised as sources of political or social reform—petitioning against their operations. These Acts constitute, indeed, the foundation and basis of our present monetary system. This was the claim of their author, and is the boast of all who, enamoured of them, warn off any who even attempt to show that the economic principles on which they rest are faulty and indefensible.

Thus far, we see (*a*) that more money is demanded; (*b*) that the laws which determine the amount of issue of bank notes are definite Acts of the Legislature; and (*c*) that few endeavour to justify the principles on which these Acts rest, or the method by which they were passed.

III

The great desideratum at the present time is money, or convenient signs of wealth, by means of which the vast stores of exchangeable commodities may be put within the reach of the working classes. There are many things which labour can multiply, but, *media* of exchange being wanting, commerce is hampered, and the social problem accentuated. The depression in agriculture, and all trades, the privations of men unemployed but willing to work, and the widespread poverty of the day, call for monetary reforms that will give workers a chance of living with a greater measure of comfort. There is food enough in the land; warehouses are stocked with goods, but for lack of "counters of exchange" men and women are starving in every hamlet, town, and city. If this widespread poverty be questioned, then it is only necessary for those who doubt the truth of the statement to visit the homes of the poor, and evidence, sickening in the extreme, will be easily found. The demand for employment on the part of the unemployed, and for better wages by those who are fortunate enough to be employed, is met by those who are appealed to, saying credit is meantime shaken, and money is scarce.[1] Strikes avail little to produce improvement. The most elaborate schemes of philanthropists for relieving distress effect even less permanent good. Men capable of working, but unable to provide

[1] It must not be overlooked that money may be often obtained on easy terms by those who hold good securities, while at the same time the ordinary trader can only obtain loans at a rate of interest which prohibits production.—*Vide* Note, pp. 340–341.

legitimately for their own and their families' wants, revolt against charitable doles of relief. Appeals to Government for money in aid of the better housing of the poor, employment, higher education, etc., are answered by statesmen alleging that since they have more demands for the money in their hands than they can meet, they are powerless. But while these phases and features of the social problem come home to different persons with more or less force; while suffering and want create the most perplexing and baffling questions to which a sympathetic mind can be turned, it is nevertheless true, and beyond all doubt, that real wealth, *pecunia*, abounds, and is only prevented from being further multiplied and distributed, and thus ministering to the welfare of suffering thousands, from the want of money, the sign of wealth, *moneta*. Mr. Kirkup, in his work on Socialism, has rightly argued that since slavery gave place to serfdom, and that, again, to wage-earning, it cannot be beyond the resources of mankind to devise conditions of labour and remuneration which every moral instinct affirms ought to be provided, and the true well-being of the race requires. With equal reason, it may also be contended that the wisdom of statesmen and politico-economic workers, and the profound interest awakened by the clamant cry of the poor, must ultimately discover an agency, or agencies by which the existing abundance of exchangeable commodities will be placed within the reach of the starving unemployed. That, in the social evolution now slowly going on, thoughtful men recognise silent but also powerful factors operating towards these ends, is beyond dispute. But the most hopeful are likewise the most patient, for they per-

ceive that many tentative efforts must be made; that these must be submitted to a careful sifting and searching analysis; that the goal will only be reached after much disappointment and many failures, and that the better conditions desiderated will be found not as the result of the labours of any single set of men, but as the outcome of many labourers in many fields.

But in dealing with social problems it must not be overlooked, or forgotten that many solutions have been offered. The constantly recurring periods of dull trade, and the consequent aggravation of social distress, bring to the front a number of remedies. In examining these, we have the capital advantage of looking at them in the light of history, for there is scarcely one of the proposals which are now made, and are assumed to be remedial, that was not advocated during the first quarter of this century, and repeated on many subsequent occasions.

1. Thus, it was held, and is still maintained, that our social state is rendered perplexing from no other cause than that of over-production. This is seriously believed at a time when thousands are starving. They are willing to work, but cannot find employment. They cannot reach the vast stores which over-production has created, and yet the social evils of the day are traced to this root! The fallacy of this contention is seen by the negative answer that must be returned to the question, Can there be over-production, and at the same moment thousands ill-provided with the commodities of life?

2. It is by others urged that the increase of population accounts for the prevailing distress; and the Malthusian remedy is advocated at a time when there

are large tracts of land lying uncultivated, and vast areas of the world unpeopled. It is interesting to note the comments which Hill Burton made in 1849 upon this problem. "When distinctly set forth in all its horrors," he says, "it does not seem consistent with the general beneficence of the scheme of the universe, that the Deity should have planted in man the instincts of exertion and progress, appearing to open up before him new vistas of virtuous happiness, but in reality leading only to an awful catastrophe, which shall seal the degradation of the species. It does not seem in accordance with the same beneficence, that the injunctions of the Sacred Volume to labour with the sweat of the brow, should be obeyed with the self-sacrifice and endurance which the labours that lead to a high state of civilisation involve, and that the end of all should be to prove that the injunction is a hollow fallacy, and that men had better have remained without progress, unproductive and uncultivated, contented with the earth as they found it when they first trod the turf."[1] The utterances of a recent writer are equally, though on different grounds, against Malthusianism. "It is hardly correct to say, as some socialists do, that the population difficulty will have to be faced and dealt with, but rather that only under socialism can it be definitely ascertained whether there be a population difficulty at all. Even under present conditions, so long as wealth is increasing more rapidly than population, it is evident that poverty arises not from there being too many wealth-producers, but from what they produce being badly distributed."[2]

[1] *Political and Social Economy*, p. 14.

[2] Fairman's *Principles of Socialism made Plain*, p. 108.

3. Some, again, see, in the multiplication and efficiency of mechanical appliances, and in the increased facilities of transport, an explanation of the poverty of the day. The demand for labourers is, they hold, lessened, and therefore many go idle. Statistics, however, do not prove that fewer men are now employed relatively to the population than formerly; besides, the more perfect mastery over and use of natural law—for all improvement is the outcome of a clearer insight into law—cannot operate against moral well-being or social welfare.

4. Another class, powerful at the beginning of the second quarter of this century, maintained that the abolition of the famous, or rather infamous, "rotten burghs" would solve the social problem. The political anomalies complained of have been swept away, but the members returned to Parliament have not yet solved the question. It exists, and is as perplexing as ever.

5. But a still greater number held strongly by a view which has even yet many advocates. They blamed speculation, and taught that commercial disasters and social troubles were due to the speculator. When, however, this evil—for that it is in one form an evil few will doubt—is thus singled out, it ought to be remembered that speculation is itself largely a result of the monetary laws, which put into the hands of the money-lender a power that has often proved destructive to trade and traders. There is, of course, legitimate as well as illegitimate speculation, for in all businesses there is a measure of uncertainty, and risks must be undertaken; but that is quite different from mere money-lenders appealing to the weaker side of human nature, and encouraging rash

experiments; and, therefore, if speculation in its worst form is to be obviated, and rendered as far as possible limited in its operations, the monetary system under which the money-lender, who produces nothing but *panics*, carries on his manipulations of the money market must be revised, and the monopolies it sanctions abolished. Failing to perceive the real root of our social evils, many have, and still do indiscriminately blame the directors of the Bank of England, and trace social evils to their operations. That the directors are invested with enormous power goes without saying; and that they often use it to their own advantage is equally well known;[1] but the Bank, it should be kept in view, carries on its business with the sanction of laws which the Legislature has enacted. It is true that the directors often lend large sums, and suddenly contract their issue, at the same time putting on a high rate of discount; and thus by these operations hamper and injure trade; but they cannot be made to bear all the discredit that is attached to dull trade. They are, indeed, invested with too great powers, but the Government which has given them their powers is, in the first instance, responsible; and it is folly to blame the Bank, while no heed is paid to the Government that passed the Bank Charter Acts.

[1] Writing in 1841, Mr. James Pedie says: "The directors are almost wholly composed of extensive merchants, or speculators on money capital. Their own interest stands in the way of their duty to the public. It is their interest that the currency should be in a state of perpetual fluctuation; because, as they know when these fluctuations are about to take place, they are enabled to take advantage of them in their dealings with others, and consequently their gains, from the loss and ruin of thousands, are enormous."—*A Philosophic Inquiry into the Nature of a Sound Currency*, p. 53. This same complaint is frequently made by writers of the present day.

IV

In this brief summary we have named the chief causes which are held to account for the social distress of the day. Few, we imagine, will discover the *origo mali* in over-production, over-population, or the multiplication and efficiency of mechanical appliances. The evil must be traced back to political and economic sources. The explanation and solution will, we think, be discovered, if attention be given to the political and economic principles that ought to be applied to the social life of the people. Great changes have already been effected in obedience to demands for political reform. The "rotten burghs" have been abolished. Several Reform Bills have been passed; but there are still great masses in town and country unenfranchised. Parliament, too, is still practically closed to all but the rich; the proportion of those who represent land, or money, to those who are supported by the working classes, and, therefore, in a special sense, represent labour, is very large. The former are naturally slow, and indeed unwilling, to encourage economic changes and promote monetary reforms. We admit, most frankly, that since the people have obtained so much political power as they now possess, they ought to use it to secure a larger representation of their interests; and also with as much emphasis, that, since it is becoming an axiom in politics that the will of the people must prevail, they ought to receive a better training in political history and economic principles than the desultory kind that is given at the hustings, or through the public press: for whatever party speaks, in either case, it is always one-sided readings which are

supplied. The public schools, now national property, ought to be utilised; not to teach partisan theories, but to supply the youth of the country, on whose shoulders in the future will rest the weightiest responsibilities, with political history, and to teach them Economics. Already the schools are being largely used to give instruction in domestic economy; but the πόλις is of as much importance as the οἶκος, and the foundation of a strong and intelligent State can only be laid in instruction early imparted. With rare insight, Mr. Bright said long ago, that politics ought to be as grave a concern as religion, and be treated as seriously. Social welfare, we fully recognise, is subordinate to moral well-being. The former, however, reacts upon the latter. If political measures make for the greater comfort of the people; if fewer acts of injustice be enforced, and the burdens of unjust taxation be lessened, some of the conditions are then supplied which render it possible to live a higher life. We do not say that politics, the right regulation of the affairs of the State, however excellent the measures passed, will necessarily ensure higher moral attainments; nor, on the other hand, do we hold that ethical progress and religion may not flourish under adverse circumstances; for that would be to contradict the testimony of history, which makes it abundantly plain that the highest character has often been developed amidst penury and suffering. But while these admissions are frankly made, it is also incontrovertible that since man is powerfully affected by his environment, and is, indeed, largely the creature of circumstances, his intellectual and moral perceptions reflecting the conditions under which he is placed, it follows that his freedom from

"cankering care," his enjoyment of political rights, and a living wage for a fair day's work must go a long way to make it easier for him to attain to a higher well-being. There is, for instance, all the difference which language can indicate, between the moral atmosphere breathed by those who live in hovels, exposed daily to vicious influences, and that breathed by those who are free from want and surrounded by healthy and kindly influences. "If any one denies," says Herbert Spencer, "that children bear likeness to their progenitors in character and capacities—if anyone holds that men, whose parents and grandparents were criminals, have tendencies as good as those whose parents and grandparents were industrious and upright, he may consistently hold that it matters not from what families in a society the successive generations descend."[1] "Material progress," observes Dr. Cunningham, "gives the opportunity of gain of every kind, material, moral, and intellectual."[2] We cannot, then, be misunderstood when we accentuate the claims of politics, or when we lay emphasis upon the need for better social conditions, for we do not believe that these are ends in themselves. They are only indispensable means if the highest results are to be secured on a wide scale.

Political reform is not, however, enough to attain the necessary conditions. Economic principles must also be enlisted and brought into service; for it is the province of the economist in a very special degree to concern himself with money, which tells in a thousand different ways upon the

[1] Vide *Study of Sociology*, p. 343.
[2] Vide *Use and Abuse of Money*, p. 124.

social life. Unfortunately, many of the more enthusiastic politicians have neglected the study of Economics, and have not, therefore, perceived its bearings upon the objects of their search. Sometimes, indeed, the claims of political reform have been made to clash with those of the economic worker. Fervent politicians not unfrequently allege that there is money enough to serve all the ends of commerce, and that the study of monetary laws may be left to the doctrinaire. That which is only required, in their judgment, is drastic political reform; while others maintain that a true solution of the evils of the day can only be found when Socialism, stripped of its extravagances, is an active power in the State. We are far, as we have already acknowledged, from wishing to minimise the claims of either political reform or Socialism; but we submit that both must take account of Economics, and the money market, a rather homely and commonplace subject, but after all a fine field, within which principles of righteousness may be advantageously applied, and effect the most beneficial changes. A right social state cannot, at least for many years to come,—for we are still far from Bellamy's golden age,—disregard the economic laws now obtaining; and we venture to say that when political reformers and socialists recognise the important part which money plays, they will discover in this long-neglected factor much that will aid them in realising better social conditions.

It has hitherto been only a too well-founded reproach that those who are responsible for the legislation of Parliament have not studied money as a science. The minutiæ of a local Bill have often received at their hands more attention than is given

to the weightiest monetary laws; but if measures affecting the welfare of the nation are to be passed, and if legislation is also to be intelligently conducted, this reproach ought to be wiped out. We do not mean that money or monetary principles are to be handled as subjects of speculation, or as mere academic questions, for in that sense they have neither interest for, nor bearing upon, the well-being of the thousands of bread-winners; that which we do contend for, however, is that politicians must, if they are to discharge their duties rightly, set themselves to understand and elucidate economic principles, and bring them within the sphere of practical politics. The subject is large and somewhat complicated, but its vast importance ought to be a sufficient reason for its careful study. It is well known, and now generally recognised, that though at the time when Sir Robert Peel passed his monetary measures, the question of money received a great amount of attention, as is witnessed by the pamphlets of the time, yet he was largely dependent upon the service and assistance which Mr. Ricardo and Lord Overstone were able to render him. He followed their counsels. His own authority was accepted by an obedient Parliament, the majority of the members of which had little or no knowledge of the science of Economics; and as showing the kind of procedure that was then adopted and carried out, Professor Thorold Rogers declares that Lord Overstone "made the main of his fortune by a process which he now urged should be illegal."[1] The need for an economic training on the part of our legislators is now perhaps greater than ever. This, we find is,

[1] *Economic Interpretation of History*, p. 224.

indeed, everywhere insisted upon. "You need," says the Hon. William Trenholm, late Comptroller of the United States currency, addressing an American audience, "to educate, not only the men who are going to become bankers, but you need to educate in the history and theory of money the men who are going to be members of your Legislature, members of Congress, and, most important of all, editors of your newspapers, and teachers of your people in the schools."[1] The recognition, then, of the need for an education in monetary principles is itself a guarantee that Economics will share with other subjects a wider attention.

V

An ideal political state is impossible apart from the application of sound economic principles. There is room enough for their application, for we must have learned many things, and verified old or discovered new principles since the legislation of 1844 was passed. We cannot have been standing still during the years between that time and the present. So far, indeed, from that, traders and money-dealers, in the interval, have developed an extended system of cheques and bills which was not dreamed of fifty years ago. "The whole mass of circulating credits or debts is a mass of exchangeable property just like any other, such as gold, silver, corn, manufactured goods, or any other. These credits, debts, or rights of action have value for exactly the same reason that any other commodities have value, because at the proper time they will be exchanged for money or its equivalent. The whole

[1] Vide *History and Theory of Money*, by Dr. Sidney Sherwood, p. 19.

commerce of the country is now carried on by them, except only to an infinitesimal degree, and the aggregate of money and all these credits under various forms constitute the circulating medium or currency of the country, or measure of value."[1] Parliament has taken no notice of this system. Legislative Acts have not been passed to regulate it. The system operates smoothly enough, and to the great advantage of large holders of stock. It is, indeed, a creation of rich traders, and benefits them enormously. Mr. J. C. Leaver states that the cash held by the chief London banks, and at the Bank of England, amounts to the sum of twenty-seven millions; but the balance-sheets of the chief London banks, exclusive of the Bank of England, show that there are due to the public two hundred and twenty-seven millions; and he adds, "The balance between these two figures"—amounting to two hundred millions—"is represented, not by a metallic currency in any way, but by securities represented by properties and undertakings which are created into money by the banking and general financial system which has grown into existence."[2] "The ingenuity of modern society," says Professor Thorold Rogers, "is turned in all directions towards making its metallic currency as efficient as possible, and it strives with equal assiduity to make its paper currency as efficient as possible . . . if the community requires more paper currency than the banks are able or willing to give, either by legal restraint or by caution, the community will discover some paper substitute, which it will employ in lieu of notes."[3]

[1] D. M'Leod in *op. cit.* p. 45.
[2] Vide *Money*, by J. C. Leaver, p. 20.
[3] *Op. cit.* 17.

These paper substitutes have been found; but it is only open to merchants holding properties or commodities to a large extent, to use them. They cannot be created by the working classes, who most of all require them, for they hold little property. They live from hand to mouth, and have to be content with mere existence. The conditions under which they live are frequently adverse to intellectual development and moral progress; and if "the ingenuity of modern society" were turned in the right direction, the same advantages would be given to them as the rich enjoy. It is not too much to say that the princely fortunes, which have within recent years been gathered, are largely due to the accommodating system that the rich have developed. Their properties, which "answer," as Mr. Leaver expresses it, "for the purposes of money as efficiently as coin," have made them to a large extent independent of the use of gold. They therefore seldom handle it; paper money serves all the ends of trade, and is a most useful agent.

Now, why have legislators, and especially those who have made it their special charge to provide better social conditions for the working classes, not put this same, or a similar kind of money within the reach of these classes? Have the last fifty years taught them nothing respecting the application of economic truths? or are the difficulties which are assumed to be in the path of this system, as applied to the needs of the working classes, too great to be overcome? We believe if politicians, earnest and informed as to right economic principles, had considered this question, the system would have been applied before this time in the interests of the poorer classes; for a system that can work with safety on such an extensive scale as is

indicated by the figures we have quoted, may surely be trusted to operate on a limited one.

VI

It may, however, be argued that a paper system cannot be established without a gold reserve. To argue this question at length lies beyond our province at this stage. We shall have occasion to examine it more minutely afterwards; but here we only note, in the *first* place, that there are many economists who hold that a State, politically stable and administered with honour, may issue a limited amount of paper, which would be accepted by the people and become a sufficiently strong basis for credit, and therefore a useful agent in trade.[1] *Secondly*, that there are countries like Brazil, which, according to the Indian Currency Report, maintains its credit, has "a high and fairly steady exchange," and issues a paper currency without a metallic basis;[2] and, *thirdly*, that, assuming a gold reserve to be necessary, it would not be difficult for the Government to secure a gold reserve bearing the same proportion to its issue of notes as that of the twenty-five or twenty-seven millions—the amount of cash the banks hold—to the two hundred and twenty-seven millions—the amount of credit resting upon that cash.

It is a well-recognised economic principle that, wherever credit is good, prices rise and larger wages are paid; but credit is to a certain extent dependent on money; and if the money be guaranteed, trade is encouraged and facilitated, with profit to the trader

[1] *Vide* Sherwood, *op. cit.* p. 391, sect. 4.

[2] *Vide* Report of the Committee on Indian Currency, p. 26.

and advantage to the industrial worker; for that which "makes money circulate is the confidence that each receiver of the money will be able to pass it on to another person without trouble."[1] Were the Government, then, to issue this money, the guarantee would be sufficient. That the Crown possesses the right to make such an issue is acknowledged. "In your Majesty's kingdom," says Lord Liverpool, in his well-known Letter to the King, "your Royal predecessors have always enjoyed and exercised this right."[2] The credit which such a reserve, as is assumed to be necessary—though it is still a disputed question, and quite open for debate, whether a guarantee resting on the revenue of the country be not sufficient—and the issue of notes would guarantee, would more than repay the loss that ensues from gold held in reserve and not used. The benefit to the people would also be great, and that which traders so loudly call for would be granted; for there is, as Dr. Sherwood states, "a growing demand for paper money in some form, and particularly for paper of small denominations."[3]

Should the prudence or practicability of this monetary reform be questioned, then it is only necessary to recall what the Government has already done. The Acts of 1844–45 gave to the banks of the United Kingdom the right of issuing notes to the extent of £31,859,424 without requiring them to hold an ounce of gold behind the notes. This monopoly the banks enjoy. They often use it for their own advantage. Their securities, however, have not one

[1] Sherwood, *op. cit.* 373.
[2] *Vide* Lord Liverpool's Letter to the King, 1805.
[3] *Op. cit.* 395.

whit better guarantee than that which the Government might give. No one outside the banks now defends this privilege. The Crown was under no obligation to grant it. The Bank of England had, it is true, lent large sums of money to the Government; but that was not a valid reason for granting a perpetual monopoly. The debt could have been added to the National Debt, as so many greater obligations were added. If, then, this enormous issue of notes can be allowed with safety, much more would it be safe for the Government, either on its own authority or with a reserve of gold, to put money at the disposal of the working classes, and make it easier for them to secure a share of the real wealth that is stored up.

But it is said that the Savings Banks were instituted chiefly for the benefit of the working classes, and that they afford all the benefits of the credit system. That these banks have been a great boon is true enough, with certain reservations;[1] but to hold that they give to working classes the benefits of the system which merchants have developed, is to assert that which facts do not warrant; for the holder of a Savings Bank receipt cannot pay his butcher's or

[1] If the Savings Banks induce the people to store away their earnings, which are barely sufficient to provide food and clothing, and a few extra comforts, then to that extent it is somewhat difficult to justify the temptation to save what ought to be spent on daily needs. Pastor Naumann, in his *Sociale Briefe an Reiche Leute*, has some trenchant remarks upon thrift, which he characterises as anti-social. The view of thrift entertained and often expressed by socialists at the present time was held by a learned economist fifty years ago. "The object of those who support and institute Savings Banks is to encourage a system of providence and economy amongst the working classes, and to *induce them to deprive themselves of the comforts and enjoyments which money procures, in order to lay by, or, in other words, to hoard, their hard-earned wages.*"—*The Distress of the Nation: Its Causes and Remedies*, by Charles Enderby, F.R.S. (1844).

baker's bills with it; at least bank receipts are never used by the working classes for this purpose; and that, after all, is the main feature of the credit system which enables large holders of stock to pay debts, and transfer their commodities from one to another without the use of gold. Besides, the working classes know nothing of discounting bills based on their small savings; and therefore they reap none of the advantages of a system which is a fine illustration of commercial genius, as well as one of the most useful agents of industry. Its one defect is that only a few can employ it, or reap its advantages; it is practically impossible to the working classes; and the only hope for its extension to them is that the Government will, when the practical value of Economics is recognised by the politician, recall the monopoly granted to the banks, nationalise the note issues, and thus exercise the ancient right of the Crown in issuing money of small denominations which will circulate freely, and safely within the United Kingdom. This monetary reform, if effected, would make for social progress; and that is, as we have already seen, the question of the day. On all sides, indeed, there are signs of progress; but a period marked by advances is necessarily also one of transition from old and effete, to new and better conditions. Nowhere else is the transition more marked than in politico-economic questions. "It is not probable," says Dr. Sherwood, "that we have reached the final development." This acknowledgment, made also by many others, is urging economists to examine with the greatest care the economic foundation of society, and the monetary laws now obtaining. The task is a hopeful one, for the science is no longer "dismal," since its bearing

upon and relation to social questions is clearly perceived. The laws hitherto made have been conceived and carried out in the interests of the few. The toiling masses, industrial and agricultural, have suffered not from the operation of natural law, but from artificial and one-sided legislative Acts. Of that there is no question, though those who are in affluent circumstances are the last to acknowledge it; but a better day is dawning. The ideal State is being gradually reached. The "notes"—to use a word first employed by Cardinal Newman, and quoted with approbation by Matthew Arnold—of progress are many and significant to those who have eyes to see. The progress itself, however, may be very slow; and the impatient may, therefore, fret; but history proves that the most beneficial changes come slowly. We must learn to wait, yet not relaxing any legitimate endeavour to bring about a better condition of things; and while the ideal is being steadfastly pursued, it will be discovered that money and the laws which govern its operations play a far more important part in the social organism than has hitherto, over a wide scale and by practical politicians, been recognised.

CHAPTER IV

MONETARY REMEDIAL MEASURES

I

BEFORE proceeding to notice some of the more prominent monetary remedial measures that have been proposed, we must call attention to and emphasise again the outstanding features of our problem and monetary system. We repeat, therefore, that real wealth abounds; that the things which the people require for consumption and use are abundant, and that, notwithstanding this plentifulness, thousands of men and women willing to work cannot find employment. The prevailing distress is largely due to artificial causes which the Legislature has done much to create, and may do much to abolish. Privileges have been conferred upon a few men; and in the exercise of these, they have reaped great gains at the expense of the more unfortunate traders; for, to quote the words of Ruskin, "whenever material gain follows exchange, for every *plus* there is a precisely equal *minus*. Unhappily for the progress," continues this distinguished writer, "of the science of political economy the plus quantities or—if I may be allowed to coin an awkward plural—the pluses make a very positive and venerable appearance in this world, so that everyone is eager to learn the science which produces results

so magnificent; whereas the minuses have, on the other hand, a tendency to retire into back streets and places of shade, or even to get themselves wholly and finally put out of sight in graves."[1] Less, perhaps, now than formerly, but still to a large extent, the banks of issue influence the money market. They decide rates of interest, and demand large discounts when commerce can least afford them. Two results, therefore, inevitably follow. Fluctuations, perplexing and baffling to all traders, are experienced; and the sudden contraction of money results in the most stable businesses being shaken. For these reasons many economists, turning their attention to the root-principles upon which money rests, have advocated remedial measures.

It is now recognised, for instance, that the insufficient supply of money for the constantly increasing trade of the country necessitates monetary changes of a drastic kind. Metallic money cannot bear the enormous burden of business resting upon it. Support is given in the form of bank notes to the extent of twenty-seven millions four hundred and fifty thousands, and by credit bills which could not be redeemed by gold, for the reason that there does not exist a thousandth part of the gold that would be required for such a purpose. To hold, therefore, that the business of the country rests or is dependent upon the so-called precious metals is, at least, misleading; and if the claim which those who rigidly argue that a metallic legal tender must continue, be valid, then, notes should not be issued beyond the amount of gold held in reserve; or if the issue of them beyond the gold reserve be legitimate, which we allow, the gain

[1] *Unto this Last*, p. 131.

accruing from their use should not go into the coffers of bankers, but into the hands of the people.[1] This money is really created by the Crown, and ought, therefore, to benefit the country. It does this, however, to a limited degree only; often it is made to work mischief and injury. The notes are practically in the hands of bankers, and by means of them gains are made. Bankers being able to put their notes into circulation, gold can be and is often arbitrarily exported. Large loans are negotiated; and when gold has left the country, it can be brought back again only by a sudden contraction of notes, and by the imposing of high rates of discount. While this double process is going on, failures of business houses are recorded; want of employment is experienced, and all the evils accompanying "dull times" are endured. Many an unfortunate merchant knows only too well what is entailed by the contraction of notes, and consequent scarcity of money. His stores of real wealth are sold at prices which spell great loss and suffering. His years of toil and care go for nothing; the bankers are merciless in their calls; and their "sweating room" implies an agency of which men possessed of useful commodities ought to know nothing, if money for the exchange of their commodities were plentiful. But it is not; and its insufficiency is acknowledged even by those who have no remedies to offer, as well as by advocates of reforms held to be possible.

[1] The fiduciary notes of the Scottish Banks alone amount to £2,676,350—the amount allowed to them by the Act of 1845 was £3,087,209, but the failure of several banks has reduced it to the above sum—and this represents an annual gain of about £80,290. "The note issue of the Scotch Banks, acting as it does as costless 'till money,' has," says Mr. G. Handasyde Dick, "been estimated at the equivalent of £9,000,000 capital."—Vide *Scotch Banking*, p. 10.

Another outstanding feature of the present monetary system to which attention has frequently been directed, is the enormous liabilities of the banks, which they could not meet in times of a crisis or run upon them. Mr. Bagehot says that "there is no country at present, and there never was any country before, in which the ratio of the cash reserve of the bank deposits was so small as it is now in England. So far from our being able to rely on the proportional magnitude of cash in hand, the amount of that cash is so exceedingly small that a bystander almost trembles when he compares its minuteness with the immensity of credit which rests upon it;"[1] and further, after an elaborate review of the money market, he states that the Savings Banks "contain about sixty millions of deposits, and against this hold securities of the best kinds. But they have no cash whatever. They have, of course, the petty cash about the Savings Banks, necessary for daily work. But of cash in ultimate reserve, cash in reserve against a panic—the savings banks have not a sixpence."[2] Mr. Bagehot goes on to show that the Government depend upon the Bank of England, but they and all other banks "have to meet liabilities amounting to one hundred and twenty millions with a cash reserve of thirteen millions five hundred thousand."[3]

Like so many of our institutions and laws, this system, condemned even by its partial critics, has been developed by a haphazard process, and stereotyped by the Legislature in 1844, but though indefensible, it continues to operate with advantage to the few, and is the occasion, if not also the direct

[1] Vide *Lombard Street*, p. 18. [2] *Ibid.* p. 330.
[3] *Ibid.* Appendix A.

cause, of much of the prevailing distress. The problem with which it brings us face to face is sufficiently serious. Its anomalies are frankly recognised; and many economic workers, believing that it does not represent an ideal monetary state, and that a system more advantageous to commerce, as well as more just to labour, can be devised, have set themselves to work out remedial measures. The fortress they assail is that erected and defended by definite Acts of Parliament. They maintain that the laws formulated at a time when political rights were less recognised, and political intelligence less developed than at present; conceived in the interests of a class of financiers who were assumed to have legal claims upon the Government; fairly successful when trade had made nothing of the great advances which now are its distinguishing traits; and carried out to the advantage of the richer classes of the nation—ought to be changed, and made more the expression of the new conditions under which we live. On all sides, indeed, demands are made for monetary reform. "It would," says Dr. Nicholson, "certainly be a most remarkable thing if, when economic institutions of every kind have been remodelled, when vital changes have taken place in the production and distribution of wealth, when remote nations have become more closely knit together by commerce than were cities of the same country fifty years ago, when the whole industrial world has been almost revolutionised, no change whatever in currency, which is the very life-blood of industry, should be necessary or desirable."[1]

[1] Vide *Money and Monetary Problems*, p. 12.

II

It is not, then, surprising that measures of a remedial character have been carefully elaborated and earnestly advocated. We name a few of these.

1. Some contend for the application of the principle of Free Trade to banking, and argue that it should be as open for any person or number of persons to set up and conduct a banking establishment as it is for them, say, to establish a mercantile business. Within certain limits this is, of course, possible at the present time; but those who apply Free Trade to banking maintain that the right of issuing notes against good securities should be free to all, and not limited to a privileged few. They also contend that whatever fiduciary notes are issued by Government should not be confined to holders of the monopoly, but should be given to all on terms fair and reasonable. It is difficult to see on what grounds this claim is denied. Objections are, however, taken, but chiefly by those who are either interested in or enamoured of the present system.

2. Ernest Seyd[1] has written much in his attempt to prove that the true solution of the monetary problem would be found if the Bank of England were forbidden to issue its fiduciary notes "to an amount above the amount of bullion in the Issue Department whenever the rate of interest is at 2½ per cent.," and allowed "the right to issue notes above the amount of bullion, in proportion to the amount of bullion, equal to the one-half of the rise in the rate of interest above the rate of 2½ per cent."[2] Seyd would reduce

[1] *Vide* his *Bank of England Issue*, and *Letter to Mr. Gladstone.*

[2] *Letter*, p. 29.

the 16,450,000 Bank of England fiduciary notes[1] which, he holds, lower the rate of interest unduly, and encourage engagements and contracts that drive bullion from us. He finds, after a careful examination of the actual amount of notes in circulation for a number of years, that the average amount in use is five and three-quarter millions, but that the amount of notes in reserve at one time is as low as four hundred and fifteen thousands, as in the crisis of 1866, and at another as high as seventeen millions, as in 1871.[2] His solution of the monetary problem aims at preventing fluctuations, and that, therefore, which he advocates is, that there should be as near as possible always the same quantity of money in circulation, made up of gold and notes, the reserve notes only to be issued when bullion had been exported and equal in amount to the sum exported; and withdrawn when gold had been brought back again by a high rate of discount. Seyd's proposal is far too mechanical to be practicable. It overlooks also that the great demand of the day, made by men of different schools, is for more money to carry out the transference of exchangeable commodities; and is open to the grave objection that it leaves the money of the country largely in the hands of bankers.

3. Stanley Jevons, one of the most distinguished economists of modern times, has given the outlines of a scheme which, in his opinion, would go far to solve the monetary problem. It is somewhat significant that his remedy for the evils of the day,

[1] The Bank's issue of £14,000,000 against securities allowed by the Act of 1844 has been increased to £16,450,000. This increase is due to other banks having forfeited their right of issue by failure.

[2] *Bank of England Issue*, pp. 166 and 176.

though written as a separate chapter for his interesting book on "Money," was omitted from that work; and that his editor of *Investigations in Currency and Finance* should pass over Jevons' scheme with the remark that it did not call for special attention. Now, Jevons seems to have taken the utmost care in preparing his scheme. It was, he tells us, elaborated after an exhaustive examination of all the money systems of the great nations of the world. His plan is most ingenious; and contains elements which future workers in this field must consider. It may be thus briefly stated. He holds that "the separation of the functions of money is indispensable"; and that "gold must be employed as the common denominator and temporary standard of value, in terms of which all prices will be expressed." But he breaks away from the orthodox school of economists, and argues that gold "should cease to be the permanent standard of value." He would regulate "long-enduring debts and transactions by the Tabular Standard of Value, the amount of debts, although expressed in gold, being varied inversely, as gold varies in terms of other commodities." To a great extent gold would cease to be the medium of exchange; ten and twenty-francs, or two and five-dollar pieces would be used; "but the main body of the currency will consist, as in Scotland, of representative notes of various denominations, from sums of ten, twenty, or twenty-five francs upwards." He maintains further that even representative notes might be largely dispensed with, and the Cheque and Clearing System be adopted and extended to the poorer classes. "There must, however," he says, "be some material basis for so widespread a system of paper, and this basis will be

gold, which will long continue to be the true international currency"; but "the main body of the currency will consist of paper representative notes," issued on the system of the present Issue Department of the Bank of England. Notes will not always rest upon gold, but upon other securities, and will vary "according to the whole amount of issue; and the profits would, of course, be secured for the public revenue, after payment of the cost of issue."[1]

Such is Stanley Jevons' plan, adopted deliberately after long and careful study. It is remarkable for many things, but for nothing more than these features, that he clearly recognised the need for more money; that this money should be largely of a representative kind; that it should rest on securities other than gold, and be issued by the Government for behoof of the people. Jevons contemplated the adoption of this scheme by all the great nations of the world. He saw, however, the prejudices that must be overcome before his proposal would be accepted on a large scale. To all impartial students his scheme appeals; and it certainly commends itself, both on account of its comprehensive solution of a more or less perplexing problem, and the sound economic principles upon which it is based. The present system, under which commercial transactions are carried on, is most unfair. As we have already seen, no one defends it; nevertheless it continues to operate to the advantage of the few and the disadvantage of the many. The times may not be ripe for such a monetary reform as Jevons advocated, but without question he has indicated the lines upon which economists must proceed.

[1] Vide *Investigations in Currency and Finance*, pp. 297–302.

Whatever judgment may be pronounced upon Jevons' proposals, this at least is evident enough, that the monetary monopoly that bankers enjoy ought to be abolished. The gains they gather ought also to be placed at the disposal of the people. There are writers who often repeat the statement that the Bank of England reaps no benefit from its right to issue fiduciary notes. The working expenses are held to be heavy; and the sum paid to Government is said to swallow the surplus. The expenses of issuing such notes are, indeed, considerable; but the Bank, after bearing these, has still a large profit, amounting "to a net gain of from £50,000 to £100,000 per annum."[1] There are, however, other directions, as we have already shown, from which profit comes to the Bank by the issue of notes against securities. The sum, too, paid to Government is fixed in amount irrespective of the number of notes issued. "If," says Seyd, commenting on the Act of 1844, "instead of the fixed annual payment provided for by Clause 8, the State had to receive payment according to the amount of such actual issue," the Bank would frequently diminish the number of notes.[2] In times, too, of crisis the directors make large profits. "The heavy borrowing at famine prices has been," acknowledges Clare, "a characteristic feature of every panic, and enables the Bank to do a good stroke of business."[3] The Government might, therefore, with great advantage issue its own money, according to the contention of Jevons, and thus give to the nation the means of developing its industries and multiplying its material resources, and through them, as a necessary condition of higher attainments, an oppor-

[1] Vide Clare, *op. cit.* p. 16. [2] *Letter*, p. 78. [3] *Op. cit.* p. 60.

tunity of growing in the possession of moral qualities, which alone can guarantee the nation's greatness, prosperity, and permanence.

4. Bimetallists offer another and entirely different solution of the monetary problem. They are fully alive to the commanding position which money and the laws that regulate it hold in the economic system. They also put forth every possible effort both by speech, and writings to call attention to their remedial measure. That which they seek is "a more adequate and convenient supply of money." Their demand in one respect is, therefore, the same as that of the poorer classes, who insist that the vast stores of real wealth which exist should be placed within their reach. Indeed, bimetallists make their claim professedly as much on behalf of the labourer as of the employer of labour. It can scarcely be denied that there is the amplest justification for the efforts they make. They see the stagnation of trade, and the poverty from which so many suffer. Persons of a *laissez faire* type of mind will not attempt to gainsay that, in the opinion of bimetallists, the *raison d'être* of this movement is abundantly justified, both by the low prices that obtain and the hampered conditions under which commerce is conducted. For the most part bimetallists are drawn from that class of the community which has perhaps been slowest to recognise that suffering exists; and they will, at least, have rendered excellent service if they succeed in bringing home to the members of their own class the conviction that poverty really prevails.

Thus far we readily acknowledge the good they may accomplish; but it is another question with which we deal when their solution of the monetary

and social problem is considered. The number of financial experts, accomplished economists, and distinguished statesmen—including Mr. Arthur Balfour and Mr. Courtney—obliges any one who examines the claims of bimetallists with an open mind, to give every consideration to the arguments adduced in favour of silver as well as gold being a circulating medium and legal tender. We are not, however, aware that any writer has yet given a satisfactory reply to Sir Robert Giffen's objections to bimetallism.[1] All experience shows how extremely difficult it is to discover and preserve a fixed ratio between gold and silver. Henri Cernuschi,[2] one of the most indefatigable advocates of the claims of bimetallism, contends for a ratio of $15\frac{1}{2}$ of silver to 1 of gold; but Mr. Courtney, addressing his constituents in the autumn of 1894, has declared for a ratio of 25 to 1. The difference between $15\frac{1}{2}$ and 25 is, it should be carefully observed, just the measure of the fluctuation in the market price of silver that has taken place between 1881 and 1894; and it is this constant fluctuation which, in the judgment of most people, constitutes one of the greatest barriers to the adoption of bimetallism.

This, however, is not the only objection; for if the solution of bimetallists were adopted, the present holders of silver and the owners of silver mines would be unduly favoured; and the price of another commodity, in addition to gold, would be artificially raised, and fixed. To carry out the great change

[1] *Vide* Sir Robert Giffen's *Essays in Finance*, chap. "The Case against Bimetallism," p. 286 *et seq.*

[2] *Vide* Cernuschi's *Bimetallism at* $15\frac{1}{2}$, 1881, and *Bimetallic Par*, 1887.

which the adoption of bimetallism implies, it would be necessary also to have the consent of the Continental States and America, a task Herculean in its dimensions, and not easily accomplished. Besides, in many parts of the trading world silver is still used; and commercial dealings between them and countries employing gold and silver would lead to endless complications, while the sudden fall in the market price of either metal would certainly issue in fluctuations disastrous to trade.

We do not attempt a discussion of these practical objections to the adoption of bimetallism. It belongs to bimetallists to show how they can be overcome. We instance the solution offered only as an additional proof of the widespread demand for more money. The *Spectator*, commenting upon Mr. Courtney's conversion to bimetallism, "sees grave reason to believe that the supply of metal universally received as currency is inadequate for the commerce of the world, and that this inadequacy is one of the great causes of the extraordinary drop in nearly all prices, and especially all prices for agricultural produce, from which the world is suffering." To this, Mr. William Fowler replies, "We use less and less 'money' in business, but we use credit more and more, and so it comes about that credit affects prices far more than supplies of gold."[1] Yes; but good credit rests upon the conviction that money *is* plentiful whatever the money may be; and it is therefore the ultimate guarantee of prices.

III

It may, then, be accepted that among economists

[1] Vide *Spectator*, Oct. 6 and 13, 1894.

who recognise the bearing of money upon social welfare, there is a consensus of opinion that more money is required either in the form of metal, notes, or credit bills. Bimetallism, the only measure for the increase of metallic money, is beset with practical difficulties that cannot be easily surmounted. No other scheme for providing money by means of which commodities would be exchanged—and that is really the true function of money—is so safe and feasible as the issue of notes of small denomination by the Government, either with a reserve of gold, or upon its own credit. All experience shows that such notes remain much longer in the hands of the public than larger notes. They would, therefore, readily pass from hand to hand, become the basis of credit, and facilitate trade. It may, we admit, be objected that this solution of our problem commits us to a *quæstio principii*. We have, however, no desire to beg the question. We propose, therefore, in a future chapter to deal with money along the line of its historical development, and to examine the economic principles upon which it rests; and we attempt this double task for the purpose of showing that the above solution is sanctioned, both by the historical use of money and by economic principles.

It would be manifestly unfair to allow our minds at this stage of the inquiry to be biassed by the circumstance that paper money has often been abused. There is a class of writers who seem to persuade themselves that they have answered every argument in favour of its use by instancing the great evils produced by the French *assignats* and American issues of a past age. But the possibility of abuse is not a valid argument against the right use of any-

thing, otherwise there would be few things left to enjoy. The most useful instruments and the best agents at the service of mankind are, indeed, just those which can be turned to the most destructive ends; but no sane person for that reason argues that they should not be used rightly and wisely. That paper money has been abused goes without saying; but it has also been most advantageously employed. Witness its use by the banks in Scotland, where the people accept notes, and seldom handle gold. The credit system, too, which is essentially a paper system, has rendered excellent service. There is not a tithe of the gold required behind it. Bills of credit represent commodities presumably convertible into gold; but gold could not be obtained were it demanded, for the reason that it does not exist in sufficient quantity. It cannot, therefore, be beyond the power of statesmen to put paper money strongly and safely guaranteed into the hands of the people.

IV

But it may still be argued that under the present system vast stores of wealth have been amassed, and that the country has grown enormously rich. Our monetary laws are held to account for the prosperity. It would, however, be more correct to hold that our national wealth has increased in spite of these laws; for it is mainly due to education, improved mechanical appliances, facilities of transport, the advance of science and art, greater political freedom, and the commercial genius and energy of the people. "Wealth," says Emerson, "has its source in applications of the mind to nature, from the rudest strokes

of spade and axe up to the last secrets of art."[1] Our monetary laws, so far from aiding the endeavour to multiply the earth's natural production by labour, have often interposed barriers at the most critical periods, by withdrawing from the hands of the labourer the *media* of exchange. They have favoured the operations of mere money-dealers, whose manipulations of the money market have led to fluctuations and the disorganisation of trade. Had *media* for the exchange of commodities, therefore, been at the command of labour, the prosperity would undoubtedly have been far greater, and vaster strides towards a right social state would have been taken.

After all, a false standard of prosperity may be set up, and material stores of wealth be regarded as ends and not as means to the higher purposes of life. Progress, civil, social, and moral, means for a nation far more than mere riches. As money, too, under the present system, has drifted into the hands of the few, therefore, poverty among great masses of the people has been relatively as great as when money was even less plentiful than it is at the present day. Under these conditions, then, it belongs to the Crown, as a sacred moral obligation, to exercise its ancient and indefeasible right, and in creating money—as was done under the Acts of 1844–45—to see that it is placed at the disposal of all the people. We do not maintain, in thus arguing, that any legislative Act can cut deep enough into and excise the deep-rooted social disease; for it is largely moral, and only moral agencies can accomplish an effective remedy; but monetary and other laws passed by Parliament are favourable or the reverse to the opera-

[1] Vide *The Conduct of Life*, p. 53.

tion of moral powers; and there are few at the present time that have studied the social problem who do not also perceive both that while *condition* is subordinate to *character*, it is likewise essential to aim at providing the best possible environment for the development of character, and that many workers in many fields must labour in the hope that a combination of agents, physical and economic, moral and spiritual, may issue in a better and higher life. There is no necessary antagonism between these agents; they can co-operate and render complementary service; and when this is more fully acknowledged, it will also be seen that our monetary laws, the visible expression of economic principles, strike deeply into the social problem, and demand the most careful attention that can be given to them.

CHAPTER V

THE FUNCTION AND TERMINOLOGY OF ECONOMICS

I

THE science of Economics is gradually being recognised as entitled to a place among the exact sciences. "The *raison d'être* of Economics as a separate science," says Professor Marshall, "is that it deals chiefly with that part of man's actions which is most under the control of measurable motives, and which therefore lends itself better than any other to systematic reasoning and analysis."[1] The initial and great difficulties with which it has had hitherto to contend are, in the *first* place, that the things of which it takes account, the field within which its principles apply, and what is and is not its special province, have not been defined; and, *secondly*, that the different meanings attached to its terms by different writers on politico-economic subjects have not been ascertained with anything like exactness. Fortunately both of these difficulties are being slowly removed, and the hope is therefore entertained, that the claims of the science will soon be recognised on an extended scale. As to the field and functions of Economics, almost all recent writers hold that the science deals with exchanges, commerce, theories of prices

[1] Vide *Principles of Economics*, p. 93.

as expressed in money, and the material and moral conditions under which business is carried on; M'Leod charges Adam Smith, Say, the French economist, and Stuart Mill, with having introduced into the science "personal qualities and abstract rights," and contends that they have thrown the subjects with which they deal into confusion. "There is," he says, "no possibility of erecting the production, distribution, and consumption of wealth into any sort of scientific system" on the lines they have chosen; "if we are to attain that end, we must revert to the concept of Economics as the science of exchanges or of commerce, as the most advanced economists are now doing; and then we have a body of phenomena as capable of being erected into an exact and definite science as astronomy, optics, or any other science."[1] We think, with M'Leod, that the authorities named have not been sufficiently careful in defining the sphere and contents of Economics. We believe, too, that they were partly misled by the current hypotheses of their day, which were far too narrow as working formulæ; but we cannot hold that the science is limited to mere exchanges. It is, as Professor Marshall says in the opening sentences of his exhaustive treatise, "a study of man's actions in the ordinary business of life; it inquires how he gets his income, and how he uses it. Thus it is on one side a study of wealth, and on the other and more important side, a part of the study of man."[2] Money is the centre around which economic science clusters, "not because money or material worth is regarded as the main aim of human effort, nor even as affording the main sub-

[1] H. D. M'Leod in *A Policy of Free Exchange*, p. 25.

[2] *Op. cit.* Introduction.

ject-matter for the study of the economist, but because in this world of ours it is the one convenient means of measuring human motive on a large scale, and," continues Professor Marshall, "if the older economists had made this clear, they would have escaped many grievous misrepresentations." Professor Haushofer defines the proper use of money when he says, "*Das Geld vermittelt und verbindet die wirtschaftlichen Handlungen des Menschen wie die Sprache ihre Gedanken.*"[1] The province of Economics is thus marked off by the *media* used for the exchange of goods, but it also takes within its "range all those motives to human effort the action of which is so regular that they can be measured by money, even though they do not directly spring from the desire of money gain."

The science of Economics is, therefore, both wide and inviting. It concerns man's welfare and well-being. It takes account of all methods of production, distribution, and consumption, and all modern conditions of life, which, it may be noted, are sufficiently complex. The methods are submitted to a careful analysis, and an effort is made to discover general principles by the aid of which a rational explanation may be given of the social problems of the day. The conditions of life are also closely examined in the light of moral obligations and the higher aims of life. "Questions of morality lie," says Laveleye, "at the very roots of political economy. For of what, in fact, does its subject-matter consist? The accumulation of wealth. But what is wealth? It is, as Roscher justly says, everything which satisfies a true human need—a need that is worthy of human nature, and

[1] Vide *Grundzüge der Politischen Ökonomie, von* Prof. Haushofer, p. 48.

recognised by human reason; in a word, a rational need."[1] Everything, indeed, affecting the well-being of man has for Economics not only a deep and profound interest, but it is likewise the province of the science to endeavour to express the worth of each factor in its own terms. Labour and wages, competition, supply and demand, the opening of new fields for commerce, facts bearing upon the condition of the poor, the dealings of money-lenders, the gains of employers of labour, employment of capital, investments, rent, usury, now euphemistically called *interest*, and the motives from which work is done, so far as these can be estimated in money,—all these belong to the science; and it is the business of the economist to collect facts bearing upon them, to make careful generalisations, to tabulate results, and to measure quantitatively one thing against another by means of money. But this list does not exhaust the duty of the economist; for his science has also to deal with laws, written and unwritten, under which wealth is accumulated. It asks, therefore, and demands an answer to the questions: Are monetary Acts of Parliament based on defensible principles? Are the unwritten laws which govern the money market and commerce just? These questions, it may be argued, belong to the moral realm, and cannot, therefore, lie within the province of a science which claims to be exact as the physical sciences are. This objection, it will be seen, assumes that moral exactitude is impossible; but if such an assumption were allowed, it would deal a deadly blow to all moral progress, and ultimately strike at the root of commerce itself; for if the law of right be disregarded in commercial transactions, gains for a

[1] Vide *Luxury*, by Emile de Laveleye, p. 135.

time might be reaped, but enduring profit could not be derived from them, and the whole social fabric would soon crumble. Man could not trust man; credit would be, therefore, impossible, and trade at a complete *impassé*. The moral element cannot, indeed, be eliminated: for all man's relationships are moral; his business has to do with moral issues; and for these reasons it is both legitimate and necessary that economists should examine the moral foundations of monetary laws.

In no other department, indeed, is there greater need for thorough investigation. Many monetary Acts of Parliament have been passed under conditions which it would be difficult to justify. Writers whose impartiality cannot be impugned have stated their deliberate opinion, that laws have been enacted from motives the most unworthy, and in favour of those in power when they were passed. Commerce, too, has made laws, not found in any statute-book, that need to be carefully examined. Until, therefore, economists set themselves to examine with greater care than has yet been shown the economic basis of Acts of the Legislature and the unwritten laws of traders, there can be little hope of progress worthy this science; and, to use a phrase coined by Marshall, "economic freedom" can never accomplish the objects at which it aims until account be taken of the subtle operations of those Acts and laws which, to a large extent, rule the money-market, and govern the trade of the country.

II

The scope, then, of Economics is wide enough, and the *data* with which the science deals are suffi-

ciently interesting. But it is placed under, and has to contend with, certain disadvantages from which the physical sciences do not suffer. Its *data*, for instance, are not always easily gathered, and since human motives enter into its calculations, generalisations may be faulty at a time when it is of the utmost importance they should be correct. The economist must on that account be most careful in forming conclusions. He must have a wide historical outlook; and be acquainted with the condition and progress of all social movements. He must also have insight; and, indeed, be more than an economist, for "a man is not likely," as Stuart Mill rightly observes, "to be a good economist who is nothing else." The entire field of social endeavour must lie open to his vision; and he must correct and verify his deductions with the widest possible survey of the social forces in operation.

Again, many earnest workers on behalf of social progress are repelled from the study of Economics for no other reason than that anything which has to do with money ought, in their judgment, to be avoided. They willingly give their time, and second efforts, to provide for the wants of their fellows; but they stand aloof, and are unwilling to have anything to do with money. Men, they see, have sought and pursued gold from such sordid motives; have accumulated it by such doubtful means; and have employed it for such base ends, that they refuse to entertain an elevated idea of that which can

> "Compass hardest things,
> Can pocket States, can fetch or carry kings";[1]

or respecting which the ironical counsel is given—

[1] Pope's *Moral Essays*, Epistle iii. "Of the Use of Riches."

"Get money, still get money, boy;
No matter by what means." [1]

Those who thus judge are not infrequently the most unselfish and most enthusiastic workers, and the greatest benefactors of the race. It must, then, be acknowledged that the science suffers when such men withhold themselves from its service; but it can scarcely be allowed that they have sufficient justification for the position they occupy; for when the claims of Economics are rightly understood, and its aims recognised, so far from there being any good reason for the unselfish and noble refusing to aid the science, there are the strongest arguments why they ought to study its claims and further its aims. The field, which is its own, contains groups of facts bearing upon the social condition of the people, and lures and invites all for whom the social evolution steadily going on has a fascination, and who are concerned to discover a solution of social problems.[2]

III

The difficulties lying in the path of Economics that have been briefly described are great; but the

[1] Jonson's *Every Man in his own Humour*, act ii. sc. 3.

[2] In thus arguing for Economics as a science, it is only fair to point out that many German economists who have rendered excellent service in the historical investigation of economic problems refuse to place Economics among the exact sciences. This is the position taken by Gustav Schmoller in his *Über einige Grundfragen des Rechts und der Volkswirthschaft*, and by Adolph Wagner in his *Rede über die Sociale Frage*. The Revolution party of 1848 suppressed the teaching of Economics on the ground that *L'économie politique est un recueil de systèmes disputés, elle n'a pas le droit de prétendre au nom de science.* —Vide *Mélanges D'Economie Politique et de Finances, par* Léon Foucher, vol. i. p. 13.

greatest of all is that which arises from the uncertainty attaching to its terminology. No other science, indeed, suffers so much in this respect as Economics. "In physical sciences," says Marshall, "whenever it is seen that a group of things have a certain set of qualities in common, and will often be spoken of together, they are formed into a class with a special name; and as soon as a new notion emerges, a new technical term is invented to represent it. But Economics cannot venture to follow this example. Its reasonings must be expressed in language that is intelligible to the general public; it must therefore endeavour to conform itself to the familiar terms of everyday life, and as far as possible use them as they are commonly used."[1] From the time that Bagehot published his *Postulates of English Political Economy*, writers have more or less shared his despair of ever being able to define economic terms with sufficient exactness. His influence on current thought is constantly being seen; and perhaps he is followed only too closely.

Now, while we admit that a difficulty "lies in making shift with a few terms in common use to express a great number of subtle distinctions"; and that it is far from easy to make general propositions respecting groups of things, or accurate scientific classifications of them; for since Economics deals with ever-changing human motives, and ever-varying conditions under which men live, its propositions and classifications must constantly be revised and restated, yet neither of these difficulties should prevent an attempt being made to give to the terms in use a definite meaning. To

[1] *Op. cit.* p. 103.

state a general proposition is one thing; to define a term is quite different. We do not, therefore, argue for fixed and invariable propositions, but for exact definitions of terms, that when writers use them their meaning may be obvious. This has not been done in the past; but there are signs that the necessity for exact terminology is being gradually recognised; and since the progress of the science largely depends upon this desideratum being supplied, a systematic effort cannot be made too soon to define its terms.

It is, however, to be regretted that some writers who have rendered excellent service to Economics should have disparaged any attempt at accurate definition. Stuart Mill, for instance, openly avows in his work on Political Economy[1] that "it is no part of this treatise to aim at metaphysical nicety of definition"; and Nicholson, while acknowledging that "the great aim of definition is to make bare the meaning of the terms employed," goes on to make the statement, which is scarcely consistent, "that it is matter of comparatively small importance whether different writers use the same word in precisely the same sense, when either from their definition at the outset, or from the context, the meaning is plain."[2] If writers on Economics, we need only observe, continue to sanction such loose language; and, while professing to deal with an exact science, employ such lax principles, confusion of thought must ensue, and a long time, marked by fruitless efforts, must elapse before anything approaching finality can be attained.

We cannot, therefore, agree with those who

[1] Vide *Principles of Political Economy*, Preliminary Remarks.

[2] *Money and Monetary Problems*, p. 14.

practically hold that there is no necessity for economic terms being employed with scrupulous exactness. Many of the mistakes committed by economists are due entirely to their terms being used now in one sense, now in another. For that reason, accuracy of definition is, indeed, absolutely required; and it would certainly be a great gain to the science, if a consensus of opinion could be secured as to the sense in which it is legitimate and valid for economic writers to employ their terms. We may be far from obtaining such a consensus. Meanwhile, it behoves the economist to exercise the greatest care in the use of his words. This will repay him in the longrun, and greatly benefit the science; for he should be the first to perceive that the principles that apply to other scientific pursuits ought also to be made applicable to Economics.

IV

Since, then, inexactness of definition and the loose use of terms constitute one of the greatest barriers lying in the path of the science of Economics, we shall endeavour to define as accurately as possible some of the terms we may have occasion to use. We shall take the terms in their natural order, and note their original use, historical development, and modern application. We begin with *barter*, since it denotes the most primitive form of commerce.

§ 1. BARTER may be briefly described as the exchange of one article for another. Barter, *καπηλική*, in general, has its original beginning, says Aristotle, "in nature, from the fact that some men had a surplus, and others less than was necessary for

them."[1] In its earliest form, barter is carried on without the aid of a common measure of value. Among savage tribes it has been from the earliest times, and is still effected by one person, or groups of persons, agreeing to give to others, commodities in exchange for articles or services which are desired. "It is important," observes Bastable, "for a right understanding of the question, to grasp the fact that exchanges took place originally between groups, and not between individuals. This," he says,—though one might have anticipated an opposite result,—"explains the slow growth of exchanges, as each group produced most of the articles necessary for itself, and such acts of barter as took place were rather reciprocal presents than mercantile exchanges."[2]

Barter may be conducted either with or without the assistance of a measure of value. When, however, a measure of value is employed, barter passes, strictly speaking, into buying and selling; and this is a stage higher in the development of Economics. As tribes or nations become more civilised, goods and service are exchanged by means of rudimentary monetary systems;[3] and exchanges on an ever-widening scale take place, aided by such systems. The rough-and-ready methods of aboriginal races are thus corrected, and the way gradually prepared for extended dealings. Barter comes first, and measures of value, such as oxen among the ancient Greeks, and skins, as at the present day among the

[1] *Politics*, Book i. chap. 9.

[2] *Encyc. Brit.*, Article "Money." Ninth edition.

[3] Cæsar remarks of the Britons: "*Utuntur aut ære aut nummo aureo aut annulis ferries, et certum pondus examinatis pro nummo.*"—De Bell. Gall. v. 21.

Indians of Alaska, follow in course of time. "The real distinction," says Marshall, "between the theory of buying and selling, and that of barter, is that in the former it generally is, and in the latter it generally is not, right to assume that the marginal utility of one of the things dealt with is practically constant."[1] Whatever the article selected may be, it is recognised as containing properties of use or ornament; and the price of all things is expressed in its terms. Its value is discovered, and it is therefore desired.[2]

Since, then, *value* enters as an important element into transactions at such an early stage, it is necessary, observing the historical development of our subject, to inquire what the term connotes, and what ideas are in the mind when it is used.

§ 2. VALUE as an economic term is, as Dr. Nicholson says, "encrusted with difficulties," and has, most unfortunately for the science, been greatly abused. It has been employed in different senses by different writers, and not infrequently has been used at random. There are also many instances of the same writer now using it in one sense, and now in another. The utmost confusion, therefore, prevails; and arguments which appear logical enough are often vitiated, or fail to appeal to readers with the force, and to produce the conviction in their minds, which the writer intended. As a practical illustration of the misleading use of this term, it may be pointed out that the word is often employed as if it were a synonym for price. People often speak of the value or price of an article; perhaps no great harm is done when

[1] *Op. cit.* p. 397.

[2] *Vide* Letourneau, *Property: Its Origin and Development*, pp. 358–363, for an account of articles used in barter.

these terms are so used in common language; but the result is altogether different, and is, indeed, disastrous to accurate thinking when economic writers justify the common usage, and are careless in the use of their terms. In standard works, too, on the science, the phrases often occur, "the value of an article," and "its exchange value," while that which is really intended is value and price.

Commenting upon Adam Smith's statement that "the word *value* has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys"; and that "the one may be called value in use, and the other value in exchange,"[1] Marshall says: "In place of 'value in use' we now speak of 'utility'; while instead of 'value of exchange' we often say 'exchange value,' or simply 'value.' 'Value' by itself always means 'value in exchange.'"[2] To the same effect Stuart Mill writes: "The word 'value,' when used without an adjunct, always means, in political economy, 'value in exchange.'"[3] Two remarks must be made upon these *dicta*. *Firstly*, it would be to the advantage of Economics if the term "value" were limited to express the qualities and properties of any given article—which is, as we shall shortly see, really its right use. There is no reason why the technical sense that Mill and Marshall give should be retained, for what they and all economists mean

[1] It is interesting to note how early this distinction was made. "Every piece of property," says Aristotle, "may be employed for two distinct purposes, the purpose of use and the purpose of exchange." —Book i. chap. 6.

[2] *Op. cit.* p. 8.

[3] *Political Economy*, Book iii. chap. i. p. 265.

when they use "value" is "price." Marshall, for instance, goes on to say: "The value, that is, the exchange value, of one thing in terms of another at any place and time, is the amount of that second thing which can be got there and then in exchange for the other"; and he adds: "Thus the term is relative, and expresses the relation between two things at a particular place and time." Now, "price," which is free from ambiguity, and does not need an "interpreting clause," would express all that "value" does, and reserve "value" for a definite and easily understood purpose. Every one acquainted with the discussions that economists are obliged to take a part in, knows that these interpreting words have led to controversy not very dignified, and to the mental confusion of students of Economics. The words "value in use," "intrinsic value," "utility," and "subjective value" are used interchangeably to express the quality of a thing; while "objective value" and "exchange value" are taken to indicate two or more commodities, and the ratio at which they are exchanged for each other. But, to say the least, these terms are confusing; and it argues little for the perspicuity and the progress of Economics if these needless and baffling phrases must be employed. In a series of articles recently published in the *Statist*, the editor, Mr. T. Lloyd, has submitted value, as a term of relation, to a severe criticism. He holds that value is not an objective relation between things, but "a function of opinion"; that the relative values of things are not governed by "the relation between supply and demand," but "by the local and temporary estimates of the probabilities of obtaining in sufficient quantities" what is desired; and that "these estimates

are themselves mainly determined by the strength of the desires and the efficiency of labour." Much importance need not be attached to the discussion going on. It is referred to here merely as an illustration of the difficulty that is experienced whenever a non-natural sense is attached to a word. The same difficulty is not met with in any other of the sciences; and it is scarcely possible to say how much Economics has suffered from this and similar abuses.

But, *secondly*, we must point out the natural and definite meaning which belongs to value. As a term, and apart from the economic use that economists have made of it, value denotes that quality in a thing which makes it desirable as a possession or property. The French *value* and the Latin *valor* both express this idea. The quality or qualities of a given article are independent of the price which may be paid for it, though the right to possess the article may pass from one person to another by means of money or by some other thing, or things being given in exchange for it. But whatever the *media* of exchange, while they express price, they do not affect or alter the value of things. This proper use of the term was perceived and advocated by Taylor,[1] a learned and original writer, who rendered good service to the science of Economics half a century ago. "Value," he says, "being that quality in a thing which renders it *absolutely* estimable, can undergo no modification by the existence of a greater or less degree of symbolic money." Price, however, "being relative to the quantity of money in circulation, will fluctuate as that quantity fluctuates." In more recent times the

[1] Vide *Currency Investigated*, by John Taylor, p. 74.

same conclusion has been emphasised by Ruskin, who holds that "value is independent of opinion and quantity. Think," he says, "what you will of it, gain how much you may of it, the value of a thing itself is neither greater nor less. For ever it avails, or avails not; no estimate can raise, no disdain depress, the power which it holds from the Maker of things and of men."[1] Fairman, in his *Principles of Socialism made Plain*, confirms the definitions of value thus given. "Exchange, or market value," he says, "which is probably the ordinary meaning of the term, is equally well represented by the word 'price,' which is not so likely to carry with it the misleading notion of some quality inherent in the article itself, and is much more precise."[2] Professor Nicholson says: "When we speak simply of the exchange value of a thing, the correlative term is 'money'";[3] and again he remarks, "Money measures exchange value."[4]

It needs scarcely be said that a great advan-

[1] *Unto This Last*, pp. 118, 119.

[2] *Vide* p. 27.

[3] *Principles of Political Economy*, p. 28.

[4] *Ibid.* p. 56. Utility and value are synonymous terms; for that which is useful and makes for life is the only thing valuable. The function of price, which is a relative term, is to express man's estimate of a thing. His estimate may be higher or lower, but that does not touch the value of the thing itself. As Dr. Smart rightly holds, its value is its utility, its power to minister to life. Man's estimate of it, is made by *price*. The *price* may vary, but not the value. The objection which Dr. Nicholson takes to Dr. Smart's theory of value (p. 56), is thus got rid of; and the measurement of utility by price, and the dependence of value on utility, are quite defensible. Dr. Smart, it should be noted, discusses *utility* in an economic sense; and Dr. Nicholson unintentionally supports his theory when he says that political economy is mainly concerned with utilities that have a price; and that the possibility of accurate measurement makes Economics an exact science (p. 28).

tage would be secured if economists were to limit the use of *value* to its natural meaning. Many useless discussions would also be avoided, and the way prepared for greater progress. We are, of course, aware in quoting Ruskin that there are politico-economic authorities who scoff at his Economics. He is far too ideal, and not homely enough. Some even seem to believe that he has applied to the science, moral principles that are too lofty. Now, Ruskin is indeed a high-toned moral writer. He is on that account a man of rare insight; what he has to say cannot be dismissed with a scoff. On the contrary, all who aim at the highest conditions of life must listen to what he has given as his deliberate judgment respecting the basis of Economics and right monetary laws. The Essays in *Unto This Last*, says Ruskin in his Preface, were, when first published, "reprobated in a violent manner, as far as I could hear, by most of the readers they met with. Not a whit the less I believe them to be the best, that is to say, the truest, rightest-worded, and most serviceable things I have ever written; and the last of them,"—from which our quotation is taken,—"having had special pains spent on it, is probably the best I shall ever write." As an illustration of Ruskin's foresight, the words of an obviously well-informed economist may be quoted: "Mr. Ruskin's reputation," he says, "as an original thinker and suggestive guide in Economics has advanced almost as rapidly as it has declined in regard to Art. . . . It would, perhaps, be going too far to say that the stone which the builders rejected has since become the head of the corner. Still, the fact remains that the influence of Mr. Ruskin on the modern science of Economics can be denied by no

one."[1] Traditionalism in Economics may receive a severe shock from his onslaught; but that is not a reason why what he has to say should not be weighed on its merits. According to Ruskin, value belongs *per se* to a thing which has inherent worth; it is, therefore, desirable as a possession, the right to which may be obtained either by means of money or by something else being given in exchange for it. These remarks prepare the way for a clear definition of price.

§ 3. PRICE it is evident, is not a convertible term for value. As the word *pretium* implies, price is "the equivalent paid for anything." It is necessarily variable; for the estimation of, or need for, an article, varies with the ever-changing conditions under which it is produced or supplied. It is, therefore, essentially a term of relationship; and, we may observe, under this term all that Mr. Lloyd desiderates, and Professor Marshall affirms, may be fitly placed, for discussions as to *value* have frequently been discussions as to *price*, which definitely expresses that for which articles, either on a small or large scale, in the home or foreign market, are exchanged for other articles.

Upon no other subject have economists written so much as on value and labour. Adam Smith, Ricardo, M'Culloch, Carey, the American economist, Lassalle, the founder of the Social Democracy of Germany, and Karl Marx, the expounder of Scientific Socialism,

[1] Vide *Glasgow Herald*, January 22, 1895. This testimony is significant; for the *Herald's* writers on economic questions, while generally opposed to radical changes, have nevertheless been in sympathy with the younger school of economists. They have not, it is true, always perceived the drift and ultimate end of their principles, but they have rendered good service to the science.

all maintain that labour is the sole cause and foundation of value. Ruskin, clearest-sighted of economists, misled for the moment by a false theory of value, says: "The price of anything is the quantity of labour given by a person desiring it, in order to obtain possession of it."[1] The quantity of labour "which must be given for other things is," he says, "variable; and in estimating this variation, the price of other things must always be counted by the quantity of labour; not the price of labour by the quantity of other things."[2] Socialism builds its edifice upon this postulate; and its advocates point to the utterances of the masters of Economics for defence and justification of their doctrine. Many recent writers, who refuse to accede to its claims, have endeavoured to strike at the roots of socialism by denying that labour measures all things.

Now, as the controversy respecting value as a "term of relation" or "function of opinion" might have been obviated if the natural meaning of value had been retained by economists, so the acrimonious dispute as to the basis of socialism might have been rendered unnecessary if the term *price* had been used instead of *value*; for it is the misuse of the word that has led to misunderstanding and confusion of thought. Marshall, who quotes Adam Smith with approbation, only adding to his definition of value a few explanatory words, writes: "Throughout the earlier stage of our work it will be best to speak of the exchange value of a thing at any place and time as measured by its price."[3] He thus concedes that for which we contend; and it would certainly guard against ambiguity if the term *value* were reserved for its natural use; and

[1] Vide *Unto this Last*, p. 136. [2] *Ibid.* p. 139. [3] *Op. cit.* p. 9.

when the question of exchanging articles was at issue, if the word *price* were employed.

§ 4. WEALTH is the next term that must be defined. Fortunately, though there has been much controversy as to the contents of this term, its meaning is now generally recognised. It is, therefore, necessary to give only a few of the definitions of representative economists. Adam Smith holds wealth is "that portion of the results of land and labour which are capable of being accumulated." Colonel Torrens says that it consists of "articles which possess utility, and are produced by some portion of voluntary labour." M'Culloch defines it as "those material products which have exchangeable value"; Lauderdale, as "all that men desire"; Malthus, as "those material objects which are necessary, useful, or agreeable"; Mill, as "a large stock of useful articles"; Ruskin, as "the possession of the valuable by the valiant." Wanting in the latter moral quality, many, he says, who hold large possessions are "no more wealthy than the locks of their own strong-boxes are." "All wealth," according to Marshall, who has submitted the term to a searching analysis, "consists of things that satisfy wants directly or indirectly." It includes all material goods and immaterial goods which are external to a man; both kinds of goods being transferable and exchangeable. "This use of the term *wealth* is in harmony with the usage of ordinary life," and includes all goods "which come clearly within the scope of economic science." Use, convertibility, exchangeability are, therefore, essential "notes" of wealth; and for economic purposes it may be defined as the possession of things useful for life, convertible into

articles that gratify the desires, and exchangeable in commercial dealings.

§ 5. CAPITAL as an economic term has been much discussed by English, German, and French economists; and they have written at great length upon *circulating, fixed, individual, social, national, auxiliary,* and *consumptive* capital. But a careful examination of their writings shows that they are practically at one in holding that the term designates wealth, real property, *pecunia*,[1] in active operation for the purpose of either gaining a livelihood or making profit. "Capital," says Stuart Mill, "is wealth devoted to reproductive employment." The only difficulty with which economists have had to contend is, whether *capital* may also be applied to wealth not in use, but capable of being put into use. The element of prospectiveness has therefore occasioned some controversy. Accordingly, we find a writer like Dawson endeavouring in his definition of capital to express both the present and prospective employment of wealth. In his *Wealth of Households* he says: "Capital is wealth earned but not consumed—which is applied, or ready to be applied, in aid of the production of more wealth."[2] Most economists, however, content themselves with a definition that attempts less. Thus, Adam Smith defines capital as that part of a man's stock, accumulated wealth, "which he expects to afford him a revenue." Ricardo says it is "that part of the wealth of a country which is employed in production." M'Culloch holds that

[1] *Pecunia* (from *pecus*) and *capitale* or *catallum* both denoted cattle among the Romans. "*Catallum*," says Du Gange in his Glossary, "*idem quod capitale. Bona omnia quæ in pecudibus sunt.*"

[2] Sect. 447.

"the capital of a nation really comprises all those portions, the produce of industry existing in it, that may be directly employed either to support human existence or to facilitate production." Ruskin defines it as "material by which some derivative or secondary good is produced"; and Cunningham as "a fund of wealth from which a man expects to get an income." From these definitions, then, it is obvious that all the ends of Economics would be served if wealth and capital were clearly distinguished, *wealth* being taken to signify real property capable of being exchanged; and *capital*, whether individual, social, or national, wealth in use, and producing that which sustains life or makes for profit.

CHAPTER VI

ECONOMIC TERMS—*continued*

I

Standard of Value and *Measure of Value* ought to be differentiated. As Economics advances and clearness of conception characterises its development, the necessity for separating these terms and reserving each for its legitimate and natural use becomes more and more apparent. There cannot, indeed, be any real progress so long as the two terms are treated as synonymous and convertible. For economic purposes, therefore, there must be a *standard* in terms of which all things can be estimated. The only legitimate standard is that fixed by nature. It must, indeed, be found in nature. Now, the things which make for and sustain life constitute the most invariable standard. On the other hand, a *measure* is artificial; it is a "creation of man, and variable at his will and pleasure." Coined metals and fiduciary notes make good and convenient measures. We are aware that writers of the greatest authority have debated the question as to whether there be any fixed standard in terms of which things can be estimated.

Those who answer it in the affirmative are again divided among themselves as to whether labour, gold,

or commodities constitute the standard. Adam Smith holds that "labour alone, therefore, never varying in its own value, is *alone* the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only."[1]

Other economists recognising the practical difficulties in the way of labour as a standard of value have endeavoured either to take Smith's definition out of Economics or to modify it. Thus the Earl of Lauderdale, in his work on *Public Wealth*, says the author of the *Wealth of Nations* is "the person who has struggled most to establish the opinion that labour may be considered as an accurate *measure*[2] of wealth." But he continues: "To those who understand anything of the nature of value, or on what its variations depend, the existence of a perfect measure of value must at once appear impossible."[3] Ricardo remarks: "Of such a measure it is impossible to be possessed, because there is no commodity which is not itself exposed to the same variations as the things, the value of which is to be ascertained." He holds, however, that labour imparts to a given article its value. De Quincey faithfully followed Ricardo, and homologated his theory; he set himself, indeed, in his famous *Templars' Dialogues* to expiscate Ricardo's economic principles, and stoutly maintained, to the instruction of Philebus, that the quantity of labour employed on a given article determines its value, and is therefore the *principium essendi* of the value of

[1] *Wealth of Nations*, vol. i. p. 43.

[2] It will be observed how measure and standard are taken as synonymous all throughout this discussion by economists.

[3] Vide *Political Economy*, p. 42.

the article.[1] But he says: "Ricardo never dreamed of offering a standard or fixed measure of value, or of tolerating any pretended measure of that sort, by whomsoever offered"; and on his own account adds "that by all respectable economists any true measure of value has been doubted or denied as a possibility."[2]

Within recent years, however, a distinct advance has been made upon the position laid down by the older economists. Writers of note still employ loose and inexact terms. Measure and standard are still used as if they were synonymous; but alike in the interests of commerce and accurate generalisations from social *data*, it is necessary to make a distinction between these terms. Money, whether in the form of coin or notes, is a good *measure* of value; but the farthest-seeing economists now contend for a definite standard of value which they look for in something fixed by nature and subject to fewest variations. They argue that as in other sciences there are standards, so there must be one in Economics. Labour, long held to be the standard of value by the older economists, is now set aside. Its importance in Economics is still recognised; and though no longer held to be a standard, it is one of the most powerful elements in social life, and is entitled to amplest remuneration; but, however important, it varies too much to be accepted as a standard.

Again, gold which is sometimes spoken of as both standard and measure of value, for the same reason is likewise held to be an inaccurate standard; for its purchasing power is constantly changing.

Since, then, labour and gold, being so variable, cannot be taken as a standard of value, economists

[1] Vide De Quincey's *Works*, vol. iv. p. 238. [2] *Ibid.* p. 244.

have been obliged to cast about for something which nature has stamped as a standard—something non-artificial, not dependent upon the arbitrary dealings of money-changers, but coming from nature, or, as Ruskin says, "from the Maker of things and of men," which is almost, if not altogether invariable.

This standard is found, according to Jevons, in "the current prices of commodities in all the principal markets of the kingdom"; and according to Marshall, in "the total consumption of the whole nation." That which Jevons approves and Marshall supports is the setting up of a Tabular Standard.[1] The price of labour and gold would be regulated by this Standard; the metals gold and silver, which now measure things, would remain unchanged; but present and future monetary obligations would be estimated according to the Tabular Standard. An admirable statement of the tabular standard system is given by Jevons.[2] He cites the schemes proposed by Lowe, Scrope, and Porter; and holds that "the intensity of crises would be mitigated" by its adoption. Professor Nicholson, commenting upon the Tabular Standard and Index Numbers, justifies the length at which he has treated this subject, "because it is not only the most difficult of the functions of money to understand, but has very serious practical consequences."[3] He cannot, however, approve it, yet he thinks that if the fall in prices continues, "contracts must be readjusted to the purchasing power of the standard money." But how can readjustment be secured if there is no standard

[1] The Tabular Standard is intended to regulate long-standing contracts, but the principle is capable of indefinite extension.

[2] *Money*, pp. 328–333.

[3] *Money and Monetary Problems*, p. 37.

apart from gold, which is here acknowledged as too varying in its purchasing power?

Whatever answer may be given to this question,—and it is for those who reject the scheme supported by Jevons and Marshall to find a constant standard elsewhere, since they recognise a moral obligation in contracts that "*must* be readjusted,"—labour cannot be taken as the standard, nor can gold, without a great injustice being done, since its purchasing power is ever changing.

We are obliged, therefore, to look for a standard in the things which make for man's sustenance. We must, indeed, return to the original standard selected by traders whenever they passed beyond the stage of mere barter, and entered upon more extended operations. Some natural object or product was selected, as, for instance, the ox by the Greeks in Homer's day, or later in Solon's time, corn, wine, and oil. By these things man lives, though not in the highest sense "by bread alone." He labours, and must be fed. The standard by which he tests the worth of the labour is the amount of bread he earns; but since he receives his wages in gold or silver, the metals become the measure by which he estimates the amount of bread and other things necessary for subsistence he is able to purchase. It matters little to him whether he receives more or less of gold; but it means everything whether what he does receive will purchase sufficient of the necessaries of life. From natural causes, or more likely, certainly more frequently, from the manipulations of money-dealers, the purchasing power of gold may be greatly reduced. It is conceivable that though a man in a besieged city possessed all the gold held by a miser, he might

not get enough of the necessaries of life to enable him to live with comfort; and, therefore, that which is of supreme importance to him is not how much gold he receives, but how much food and clothing his gold will purchase.

While working out his theory that labour is the standard of value, Adam Smith stated in the most exact words that which lies at the root of our contention. "The nature of things," he writes, "has stamped on corn a real value which cannot be altered by merely altering its money value";[1] and at an earlier stage of his investigations he says that "equal quantities of labour will be purchased more easily with equal quantities of corn, the substance of the labourer, than will equal quantities of gold and silver, or perhaps of any other commodity."[2] "Labour," he observes, "like commodities, may be said to have a real and a nominal price. Its real price may be said to consist in the quantity of the necessaries and conveniences of life which are given for it; its nominal price is the quantity of money. The labourer is rich or poor, is well or ill rewarded in proportion to the real, not to the nominal price of his labour."[3] Now, there is no meaning in these words, unless they be taken to imply that the standard of value must be found in some natural product. Adam Smith selects corn in the passages quoted, though elsewhere he declares for labour. Man cannot live without bread; for man must eat if he is also to work. Corn, or rice—its equivalent in Eastern countries—was indeed the old standard of value. Rents were paid in it. "From the earliest feudal times," observes Jevons,

[1] *Wealth of Nations*, vol. ii. p. 328.
[2] *Ibid.* vol. i. p. 259.
[3] *Ibid.* vol. i. pp. 43, 44.

"contracts, especially those concerning rents, have been made in corn and other commodities, as well as in personal service."[1]

But under modern conditions corn cannot stand alone as the standard of value. All other commodities which make and are necessary for sustenance must also be taken into account. The average price of these can be ascertained. Arthur Fonda, in a work that has not received the attention it deserves, perhaps from its somewhat unattractive title, has developed the ideas of Lowe, Scrope, and Jevons, and has given the outlines of a new monetary system. Fonda finds, like his predecessors, the standard of value in commodities, but, unlike them, he applies his scheme to all monetary transactions. A commission, he says, should select, say, one hundred articles of a representative kind. The average price of these commodities during a given period in the principal markets of the world should be ascertained and tabulated by statisticians. The approximate amount annually consumed should also be discovered. A table should then be prepared from the information thus gathered, showing the amount one pound sterling or a dollar "would have purchased, on the average, of each of the commodities for the time determined"; and from this "a final table should be made, taking such multiples of the amounts found in the previous tables as should represent their proportionate consumption, in other words, their relative importance to trade." Notes should next be issued by Government. These notes would be redeemable in any commodity at its current market price. The amount of such notes should be so regulated by

[1] *Investigations in Currency and Finance*, p. 97.

Government that their actual purchasing power would conform to the standard on which they were based. The money thus issued should be lent on approved securities to all who could offer good securities at a variable rate of interest, "decreasing as prices tended to fall and increasing as they tended to rise."[1] Thus a criterion more steady and less variable than gold would be found, in terms of which labour and all other services could be estimated.

Gold would still serve definite purposes. Its qualities as enumerated by Jevons are — utility, portability, indestructibility, homogeneity, divisibility, stability, cognisability.[2] For the sake of these qualities gold might be desired; but it would only be a commodity like all other articles, and would obey the same rules that govern their distribution.

§ 7. MONEY is used to denote two things that are wholly different. Money in the sense of *pecunia* signifies real wealth; it designates all kinds of property, including gold and silver, when these are dealt with as commodities. The origin of *pecunia* throws light upon its use. Derived from *pecus*, cattle, it was always employed by the Romans to mean real wealth; and they therefore spoke of a man as *pecuniosus* who was rich in cattle or other real estate. Such a man possessed what they termed *capitale* or *catallum*, another word for cattle. The modern equivalents for these are capital and chattels, which imply real wealth.

On the other hand, money, *moneta*, always designates that which is representative. Coming from *monere, to bring to one's remembrance*,[3] it indicates

[1] Vide *Honest Money*, by Arthur I. Fonda, pp. 158–166.

[2] *Money*, pp. 32–40.

[3] The Juno origin of the term rests exclusively on the testimony of

some thing or things for which it stands and is accepted. It is therefore a sign or token of something else. It is that which reminds one of obligations and debts due; recalls possessions and symbolically represents them. All credit, on which the vast monetary structure is built and enormous business transactions carried out, is *moneta*. Bank notes, Exchequer bills, cheques, etc., are all signs of real wealth, and not the wealth itself; for when wealth, meaning by that term commodities, is used, real possessions are implied. *Pecunia*, real wealth, and *moneta*, the sign of wealth, are not therefore convertible terms.

For politico-economic purposes it is of the utmost importance to keep this distinction in view. Money as *pecunia* precedes in point of time money as *moneta*.[1] At first traders are content to exchange real wealth for real wealth; but as they develop their transactions they naturally seek for a sign of real wealth. Hence the enormous progress in the use of the credit system; for as society becomes more perfectly organised, the less need there is for "plain, simple transactions in money, which is a double barter, after all," and the more the credit system is employed.[2] We shall have occasion, when dealing with the historical development of money, to point out the

the inaccurate Suidas, of whom Gesner remarks, *non satis bonus historiæ auctor*.

[1] *Pecunia*, *as*, *nummus*, *moneta* were the terms which the Romans employed. *Nummus* was the last term coined, and came into use in 272 B.C. *Vide* Del Mar's *History of Money in Ancient Times*, p. 336.

[2] "And now, if our credit system is an advance, as it seems to me most people who really look into the work of the system say that it is, why, it seems to me the line of progress is in that system, rather than in going back to the system of plain, simple transactions in money, which is a double barter, after all."—Dr. Sidney Sherwood, in *op. cit.* p. 158.

part which representative money has played and ought to play in providing *media* for the exchange of articles; but meanwhile we submit that if the root-distinctions between money, *pecunia*, and money, *moneta*, were kept in view much of the confusion and uncertainty that have entered into the discussion of monetary problems and social questions would be obviated.

In what sense, then, do economists use the term "money"? and when they employ it, what do they mean? There are some who restrict the term to "gold, silver, or grains and seeds, or living money, articles having value in themselves independently of convention."[1] Others, again, hold that "money" implies and includes all that passes current as legal tender; while a third set of economists use the term with respect to everything that is employed to pay debts, and by means of which commodities are exchanged.

The first of these definitions describes wealth rather than money; for an essential "note" of money is its conventional character. The second, legal tender, is too narrow, since, strictly speaking, it is limited to gold and silver coin and Bank of England notes, which are legal tender at all places except at the Bank itself. In addition to these, Jevons includes corn rents as legal tender. "The only legal condition of the validity of any rents," he says, "according to the common law of England, is that the *quantum* must be either certainly maintained, or be such as by a reference to something else may be reduced to a certainty."[2] But even with this included in legal tender, it is still too narrow a definition of money; for

[1] *Vide* Professor F. Walker on *Money*, p. 395.
[2] *Investigations in Currency and Finance*, p. 98.

many merchants, carrying on extensive businesses, deal almost exclusively in bills of exchange, cheques, and paper notes of one kind or another; they seldom handle gold or even Bank of England notes; and if their bills of exchange, cheques, etc., be excluded from money, it would be difficult to say to whom the term "rich" ought to be applied. They are "men of money," and can command service.

We are, therefore, obliged to accept the third definition given by economists as the only accurate one, and to include in the term *money* everything that is employed to pay debts, and by means of which commodities are exchanged. Professor Walker has discussed at great length the question as to whether bank notes should be regarded as money;[1] but since they serve the ends of commerce, and goods are transferred from one person to another by means of them, there is no reason for excluding them. We must, indeed, go farther, and include promissory notes. "I mean by money," said Sir Robert Peel, in introducing the Bank Charter Act, "the coin of the realm, or I mean promissory notes payable to the bearer on demanding the coin of the realm."[2] "Anything which freely circulates from hand to hand, as a common acceptable medium of exchange, in any country, is, in such country, money, even though it ceases to be such, or to possess any value in passing into another country. In a word, an article is determined to be money by reason of the performance by it of certain functions, without regard to its form or substance."[3]

It may, then, be accepted that most economists

[1] Vide *Money*, pp. 395-406.

[2] Speech in the House of Commons, May 7, 1844.

[3] Appleton's *Cyclopædia*, quoted by Walker.

include in the term *money* whatever is made use of either for the purpose of paying debts or for the exchange of goods. Gold, silver, bills of exchange, cheques, bank notes, etc., constitute money, and are the signs of wealth.

But all these are more or less symbolic. "Gold, the metal, not alloyed gold, the sovereign," is bartered as any other commodity is bartered; and gold coined contains less value than gold in bullion. It is gold *plus* a certain amount of alloy. The difference is perhaps infinitesimal, yet it exists. Since, then, it is gold coined that is legal tender, the gold money is partly symbolic. Of silver it is without question true that, when coined and issued as money, it is far above its market price. Exchequer bills, bills of exchange, bank notes and cheques, are all symbolic. "The precious metals" constitute the measure of value "by comparison with which the value of all merchandise may be ascertained"; paper bills, of whatever designation, form signs "which represent the respective values of all commodities."[1] Presumably all good bills and cheques can be turned into gold; but if the experiment were tried, it would be found that there is not gold enough to give to each holder of bill or cheque, gold for his paper. In the United Kingdom *deposits* in the banks of the country amount to six hundred and fifty millions;[2] the fiduciary notes of the banks amount to twenty-seven millions four hundred and fifty thousands; and merchants hold property upon which bills and promissory notes are issued to a fabulous amount.

Now, as showing that almost the whole of this money, which is used to carry on commerce, and with-

[1] *Vide* Blackstone's *Commentaries*, Book i. chap. vii.
[2] *Vide* Clare's *Money Market Primer*, p. 134.

out which business could not be transacted to any extent, is symbolic, it is only necessary to remember that coined gold and bullion in the country do not exceed—if even the highest estimate be taken—one hundred and thirty-three millions. Symbolic money passes safely from hand to hand. Debts are paid in it. Real wealth is multiplied by means of it. Commerce finds in it a most useful agent; and those who hold it in large amounts are accounted men of princely fortunes.[1] When, therefore, we speak of money, it ought to be remembered that the greater part in use is representative or symbolical, and that such money is distinguished from *pecunia*, real wealth, which has value in itself, and is exchangeable as a commodity. As a side light thrown upon our subject, it may be noted that in the development of economic terms, which more or less reflect the ideas in the minds of those who use them, we have no substantive derived from *pecunia*, but only the adjectives *pecuniary* and *impecunious*, while from *moneta* we have both the substantive, *money*, and the adjective *monetary*.

§ 8. CURRENCY is a term in frequent use. It is generally employed to express gold, silver, and all signs of wealth by means of which commerce is carried on. German and French economists understand the term in this sense. In discussing economic questions, however, they invariably use the term money, the Germans using *Muntz* and the French *monnaie*. Chevalier remarks: "*Notre langue n'en offre pas l'équivalent parfait.*"[2] In the interests of Eco-

[1] The Romans compared a man who was *pecuniosus*, possessed of real wealth, to a god, and called him *divus*, while the Anglo-Saxons spoke of him as a king, and called him rich, from *rex*.

[2] *La Monnaie*, p. 64.

nomics it would have been well if the term currency had not crept into common usage; for its ambiguity has led to much confusion and mischief. Its vagueness, says Walker, "has done much to obscure the truth during the seventy-five years of economic discussion since it became current."[1] M'Leod, while holding that the word is too firmly fixed in popular usage to be changed, contends that to speak of money as currency is "a strange abuse of language," and he instances the phrases "currency of opinion" and "currency of the session of Parliament" to point out that no person ever thinks of designating either the *opinion* or *session* as currency.[2] Economists ought, in our judgment, to eliminate the term *currency* from their vocabulary; for the term money is sufficiently exact, and does not require to be supplemented by a word that is ambiguous, vague, and misleading.

§ 9. Coin as a term in Economics has an interesting history, and throws light on some practical questions which engage the attention of economists. It is generally held to be derived from Coyne, a contraction for Cunoboline, the first British prince who caused his own image to be stamped on money. His coins also bore the word *taxio*, meaning *task*, *tax*, or *tribute*. Camden surmises the money was used for taxation or tribute purposes; and in this he has been followed by many subsequent writers. There are, however, authorities who derive coin from *cuneus*, but with classical writers the term is never employed; and Leake has rightly observed that *cuneus* had "no relation to a mint or coining money, though after-

[1] *Vide* Preface to *Money*.

[2] *Elements of Banking*, p. 23.

wards used to express the stamp or coins."[1] The importance of the origin of this term will become apparent when we trace the historical development of money.

II

In our review of the meaning of the more prominent terms in use among economists, there are several things which deserve special attention, and that because they bear directly upon social welfare, and the efforts that have been made to solve social problems.

1. In the exchange of one article for another, a natural and gradual development of commerce from its rudimentary to its more perfect form is clearly observed. Barter obtains first of all; but it is soon superseded by some article being taken as the standard of value in terms of which the price of all other things is estimated. The selection of an article, however, leads at an early stage to complications; for, if it is variable, or if its supply is inadequate, all subsequent transactions are more or less affected by the variation and inadequacy of supply. Hence, ever since Economics has been treated as a science, a diligent search has been made for some article which will show least variation, and whose supply will be constant. The real difficulty consists in finding such a standard. Gold and silver have of all articles most frequently been taken. But whenever they have ceased to be commodities, and an artificial price has been put upon them, a thousand influences have been brought to play upon them. These have been dictated by many motives, but that which has exer-

[1] *Historical Account of English Money*, p. 9.

cised most power is love of gain, selfishness, greed, and the inner history of suffering, as well as of many social revolutions, may be traced back to this cause.

2. Gold and silver as measures of value came historically late into use. At first, and for a very long time, men were content with simple barter. All wealth was *pecunia*. They anticipated thus the last and best results of modern research; for now the clearest-sighted economists perceive that wealth includes whatever makes for the support of life. They anticipated this result because they followed the natural order of things, a safe rule and never misleading. *As*, *nummus*, the money coins, in course of time came into use, and under the exigency of circumstances, *moneta*, originally employed to designate the stamp or impression made upon the coin, was accepted as the sign of wealth. Among the Romans there were few signs of wealth; hence the term occurs only in the later writers. *Pecunia* and *nummus* were most frequently used; but when, as it sometimes happened, signs of wealth were intended, *moneta* was the word employed; and so it came to pass that money is, as Ruskin says, "a documentary expression of legal claim. It is not wealth, but a documentary claim to wealth, being the sign of relative quantities of it, or of the labour producing it, to which, at a given time, persons or societies are entitled." [1]

3. From the time that gold and silver were taken as the *standards* of value until the present day, men have used all their resources to make these metals serve their own selfish ends. Wholly inadequate and unsuitable for the purposes assigned to them, daring devices have been adopted to make them serve as

[1] Vide *Munera Pulveris*, p. 18.

standards of value. In ancient times, the metals being, from their scarcity, unequal to the demands made upon them, the Greeks, as in Solon's time, reduced the *mina* from 100 to 75 drachms, and the Romans, the *as* from one pound to two ounces, while the nominal amount was preserved. In mediæval times, Charlemagne set the example of lessening the weight of coins while also still preserving the nominal amount. This example was faithfully followed by all succeeding European kings. We pass over the well-known devices of clipping coins and debasing them—further proofs of the inadequacy of the metals as standards of value. But when we come to modern times, we find a new condition of things obtaining. New and improved signs of wealth are adopted. Vast sums of gold are credited to the rich; but gold does not exist equal to their wealth. That is beyond dispute. The figures already given prove this statement. Signs of wealth are therefore extensively employed. Trade is carried on by means of them; the rich grow richer, while thousands of struggling men and women can scarcely procure bread; for the benefits of these new signs, this new money, are entirely at the disposal of the rich, and have not yet, as Jevons observes, been placed within the power of the poor.

The truth is thus substantiated that commerce does not rest upon metallic money so much as upon paper bills. Recourse is no longer had to lessening the weight of coins while preserving their nominal amount, nor to clipping; but the insufficient supply of gold is supplemented by *paper*, and yet gold is taken as the standard of value!

4. The drift of social reform is towards labour as the standard according to which all other things must

be estimated. In this, therefore, socialists are making a return to the teachings of Ricardo, who held that labour is the standard of value. Karl Marx has, indeed, taken over Ricardo's theory; and he, again, has been followed by a great number of social workers. Now, labour is important, and ought to be adequately remunerated; but we repeat what has been already stated—labour varies so much that it cannot be accepted as a standard. It includes industrial and agricultural labourers, and also thinkers who do not toil with their hands, but who, nevertheless, are producers, and labour as much as others to whom the term is applied. The labours of all these can never be a standard, for the reason that the work they do is of such various kinds. Many socialists have, however, maintained with great persistency that labour is the standard of value; and have indeed built up their ideal social fabric upon this theory. To that extent, in our judgment, they have retarded the progress of social reforms. It would certainly be a far safer and more unassailable basis if they held that all who labour, whatever the sphere of their work, are entitled to live with comfort; and that the standard of such comfort must be sought for in the adequate supply of the necessaries of life, in the things which make for and support life; for this is the standard fixed by nature, and cannot be set aside without injury being inflicted upon all toilers. It can never be held to be enough that, for the realisation of social ideals, a certain amount of gold should be put into the hands of workmen. In the highest social state gold must be treated like all other commodities. Too long it has held the throne erected by the greed of men and unaltruistic motives. It is not indispensable to social life. "The use of sub-

stances," says Ruskin, "of intrinsic value as the materials of a currency, is a barbarism—a remnant of the conditions of barter, which alone renders commerce possible among savages. It is, however, still necessary, partly as a mechanical check on arbitrary issues; partly as a means of exchange with foreign nations. In proportion to the extension of civilisation and increase of trustworthiness in Governments, it will cease."[1] Signs of wealth carefully chosen and amply guaranteed, therefore, are sufficient. Such signs of wealth are really all that is required; by means of them goods would pass from hand to hand; for what avails for trade on a large scale should be effective enough on a small one. Merchants have invented convenient and reliable signs of wealth. Want of gold has obliged them to do this. Necessity, the fruitful source of invention, has urged them to adopt documentary signs; and with their aid vast riches have been secured. What, therefore, they have been able to do, a strong Government ought to be able to accomplish. The poverty and distress that prevail create a necessity for signs of wealth, and ought to urge legislators to provide them; for the abundance of things which exist and make for life can only be placed within the reach of labourers by such signs.

5. This, it may be urged, is far too ideal; but it is possible; and if the progress of the past be taken as a prediction as to the future, it may be anticipated that social reformers will perceive clearly enough that tokens which serve the rich so excellently ought likewise to be at their disposal; and that workers ought not to accept wages save when measured by the things that

[1] *Munera Pulveris*, p. 21.

support life. The transference of the centre of political power to the democracy is at once the promise and earnest of the workers' claims to adequate remuneration being granted.

The same conclusion is reached if the meaning of "value" and "price" be kept in view. All things which make for life have a value independently of the terms in which their price is expressed or measured. "Intrinsic value," says Ruskin, "is the absolute power of anything to support life."[1] In many a page of his writings the Sage teaches this truth; but long before Ruskin turned his attention to Economics, John Taylor saw and advocated the same truth. "Value," he remarks, "will always be unaffected by any circumstance connected with money. . . . A country is never embarrassed in its affairs on account of any difference in the value of its productions; but it is liable to great embarrassment on account of a difference in price."[2] The things which man requires for life are bountifully provided by his Maker. The law He observes towards His creatures is that of beneficence. Toil, however, is not excluded. On the contrary, labour, mental and manual, is the condition under which His gifts are multiplied and gathered. The order still holds, "In the sweat of thy face shalt thou eat bread, till thou return unto the ground." But under the same order of things, they who toil are entitled to live in comfort; they who work, to eat. No law of man can set aside this Divine rule. It cannot be abrogated. It may, however, be disobeyed; but when obedience is rendered impossible, it may be assumed that the

[1] *Munera Pulveris*, p. 12.

[2] Vide *Currency Investigated*, p. 75.

fault, while in many instances due to negligence or bad habits, is mainly attributable to false Economics. In no department of life has greater injustice been done than in the translation into practice of economic theories that buttress the power of gold. All things are made subservient to it. The cynical counsel of Horace is followed by thousands who practically maintain

"Quærenda pecunia primum
Virtus post nummos."

Gold is undoubtedly wealth, and has a value; coined, it may be a sign of wealth; but there are many other things more needful for life. Other documentary signs of wealth ought, therefore, to be provided; and these, as the measure of the things that support life, ought to be in proportion to existing wealth. Money, however, cannot be arbitrarily supplied. It must represent real wealth; but "so long as the existing wealth or labour is not fully represented by the currency, the currency may be increased without diminution of the assigned worth of its pieces."[1] But money has to do with price. It is radically distinguishable from value, and ought never to be confounded with things "availing for life." Money, too, the sign of existing wealth, as Ruskin rightly teaches, must exist in amounts equal to such wealth, otherwise there will be great fluctuations in the price of things; and under such conditions, while a few may become rich, and fortunes be gathered by mere money-dealers, sufferings cannot be avoided, and the social problem must always remain baffling, and unsolved.

[1] *Munera Pulveris*, p. 19.

CHAPTER VII

HISTORICAL SKETCH: ORIGIN AND USE OF MONEY IN ANCIENT TIMES

I

THE historical method applied to Economics supplies us with a working principle, safe and valuable. It gives a clear idea of the development of money from its earliest to its latest forms. It also enables us to see what changes were the outcome of the natural order of things, and what were suggested by a spirit of avarice. No one acquainted with the arbitrary manner in which changes have been effected, or the motives which dictated the laws that now govern the money market, can gainsay two facts historically well attested, in the *first* place, that our monetary laws have been often framed in the interests of those who made them, and *secondly*, that "the laws which at present regulate the possession of wealth are unjust, because the motives which provoke to its attainment are impure." [1] All classes suffer more or less from the operation of these laws. The social condition of the people is deeply affected by them. Remedies are urgently demanded. Now, there are abundant reasons for saying that one of the safest and surest methods to adopt in seeking remedial measures, is

[1] *Vide* Preface to *Munera Pulveris*.

to inquire as to the origin and trace the historical development of money; for in this way we perceive the influences that have been at work in producing the present complicated money system. We can, in carrying on our investigations, submit these influences to a searching analysis. We can note the justice or injustice of the measures devised. We can learn what has best aided a right social state; and history being our teacher, we ascertain what remedies may be most advantageously applied in dealing with monetary and social problems.

Now, in tracing the historical development of money, the first thing which merits attention is that, in the very earliest times, men were mutually dependent upon each other. As a means of living, they therefore adopted exchanges of articles. Barter, pure and simple, was the rule. Commodities were exchanged for commodities. Cattle passed hands for slaves or lands; silver or gold for lands or service.

> "Each in exchange proportioned treasure gave,
> Some brass or iron, some ox or slave."

The oldest historical records are found in the Pentateuch; and they abound with references to exchanges. As early as the time of Abraham pieces of metal having a fixed weight were used. Silver seems to have been the metal employed in exchange for land and other things. Gold money is only once referred to in Scripture; and that at a date so late as the reign of David; but even this reference to gold as money is doubtful.[1] The metals were weighed.

[1] *Vide* 1 Chron. xxi. 25, where David is said to have bought the threshing-floor, cattle, and agricultural implements from Ornan, for

גֵּרָה, a grain, like ὄβολος of the Greeks, and the English *barley corn*, was their lowest measure. Their שֶׁקֶל contained twenty grains, while בֶּקַע, a *half*, was used for a half shekel.[1]

It is related of Abraham that he bought a piece of ground from Ephron the Hittite for four hundred shekels of silver, which passed into the hands of the merchant.[2] An equally important transaction is described in Genesis, where Jacob is said to have bought "the parcel of ground, where he had spread his tent, at the hand of the children of Hamor, Shechem's father, for an hundred pieces of money." What he gave in exchange for the land is left in uncertainty; for, to render בְּמֵאָה קְשִׂיטָה "an hundred pieces of money" is to read into קְשִׂיטָה an idea that is historically later. The word comes from an unused root קָשַׂט, *to measure*, and means a *portion*; but what the portion contained is unknown: it must, however, have implied a certain amount of metal which passed as a commodity. A parallel instance of reading a later idea into a purely barter-term is found in Ex. xxi. 21, where כִּי כַסְפּוֹ הוּא is translated "for he is his money." The slave is here regarded as an article of commerce. It may be noted, though the subject lies beyond our province, that the great antiquity of the

six hundred shekels of gold by weight; and the parallel passage in 2 Sam. xxiv. 24, where shekels of *silver* are said to have been given.

[1] *Vide* for an interesting account of Hebrew Money, Herzog's *Encyclopœdia*.

[2] The Rev. Ver. retains the old rendering of Gen. xxiii. 16, "current *money* with the merchant"; but שֶׁקֶל כֶּסֶף עֹבֵר לַסֹּחֵר should be translated "shekels of silver which passed to the merchant," showing that at the comparatively developed stage now reached silver shekels were still articles of commerce like other commodities. "At that time," says Winer, "none of the States had stamped coins that could be reckoned. *Vide* article "Münzen."

text is witnessed to by the crude form of expressing ownership in slaves. In the later books of the Scripture the same form could scarcely appear.

In classical literature of the earliest date men are seen just emerging from a condition of barter. The modern idea of money coin, or its equivalent, had not yet been conceived; but while one article is still exchanged for another, there is also evidence that metals and cattle were coming into use as *media* of exchanges; and that the price of things was expressed by saying that they were worth so much metal or so many oxen. Homer gives a vivid description of Glaucus parting with his golden armour, and incidentally explains the relative price of things as measured by oxen—

> "Brave Glaucus then each narrow thought resign'd,
> Jove warmed his bosom, and enlarged his mind.
> For Diomed's brass arms, of mean device
> For which nine oxen paid (a vulgar price),
> He gave his own, of gold divinely wrought,
> A hundred beeves the shining purchase bought." [1]

Going back to a time long before the brilliant intellectual life of Greece existed, or the strong arms of Rome dominated the world, it may be assumed that in the great empires of Egypt, Assyria, and Medo-Persia, trade must have been carried on extensively. Rulers like Pharaoh in Egypt, Tiglath-pileser in Assyria, and Cyrus in Persia, must have gathered much treasure; but, unfortunately, with the exception of tribute in shekels of silver known from the Scriptures to have been paid to the Assyrian monarchs, little has been ascertained as to their weights and measures. Even the recently discovered

[1] *Iliad*, Book vi., Pope's Translation.

monuments and libraries of Egypt and Assyria throw only an uncertain light upon the conditions under which trade was carried on by the people of these old-world empires. The most accomplished Egyptologists and Assyriologists, however, hold that measures and weights were in use, and were under the direct control of the king; for metals, as well as all other articles bearing the royal seal, belonged to him. He was supreme. Everything, indeed, was made, in the first instance, to minister to his wants. Secondary and useful objects, such as commerce, might be served, but the ruler claiming all things as his own, metals which bore the royal impress were regarded as sacred for his use, and as his possessions. These metals may have passed into the hands of traders, but that their first service was to represent tribute, or what was due to the king for the support of his household and the State, can scarcely be questioned.

When we inquire as to the origin and use of money under the Lydian and Persian, the Greek and Roman rulers, we are on surer ground; for "whilst our knowledge of the Assyrian and Egyptian weight system is most imperfect, being derived from literary monuments, or from inscriptions on weights not half understood, the systems of Greece and Rome are known to us, not simply from the vast literatures thoroughly intelligible, but likewise from the evidence of immense numbers of coins struck in gold and silver, by the weights of which we are enabled to check off and substantiate the literary sources."[1]

[1] Vide *The Origin of Metallic Currency and Weight Standards*, by Professor Ridgeway, p. 2.

All writers are agreed that coined money was unknown before 800 B.C. There is therefore a well-defined limit of time beyond which we do not require to go in seeking for a *terminus a quo* in the investigation of coined money. The long period previous to this date, while marked by industry and characterised by the exchanges of the fruits of labour, owed nothing to what may be assumed to be the benefits of coined money; and the great empires of Egypt and Assyria transacted business without its aid. It need scarcely be said that the account given by Plutarch of money having been coined by Theseus some three hundred years earlier, is quite mythological.[1] He alone alludes to the fabulous story. It could not have escaped attention if true. No evidence exists to support the claim made on behalf of Theseus.

When, however, we come to the latter part of the eighth century, there is ample literary testimony that Gyges of Lydia,[2] the founder of the dynasty of the Mermnadæ, coined money. "The evidence," says Ridgeway, "of both history and numismatics coincides in making the Lydians the inventors of the art of coining money."[3] The money so coined belonged to the king, whose power was absolute. He employed it, therefore, either for personal ends or State purposes. His royal pleasure governed its distribution. It is important to keep this in view, for coined money as an agent in commerce was in Lydia, as in Egypt and Assyria, a secondary end, the first being

[1] *Vide* Plutarch, *Life of Theseus*, chap. xxv.

[2] *Vide* Herodotus, who says of the Lydians, *πρῶτοι δὲ ἀνθρώπων, τῶν ἡμεῖς ἴδμεν, νόμισμα χρυσοῦ καὶ ἀργύρου κοψάμενοι ἐχρήσαντο· πρῶτοι δὲ καὶ Κάπηλοι ἐγένοντο.* i. sec. 94.

[3] *Op. cit.* p. 203.

the personal enrichment of the king, and the extension of the power of the Lydian arms. "The king," says Ridgeway, "controlled the mintage."

Crœsus further developed the invention of coining, and during his reign, from 568 till 554 B.C., made the kingdom of Lydia famous for its gold and silver coinage.

The Greeks were not slow to grasp the significance and use of coined money. With them it became more widely distributed; for, whereas the Lydian and Persian kings held the money in their own hands, and considered first and chiefly the extension of imperial power by means of it, among the Greeks with their numerous autonomous States "there was no central authority with a mint which issued coins for a whole empire, as was virtually the case in the great Persian kingdom, and at a later period in the Macedonian empire of Alexander the Great. In the palmy days of Hellas each petty State issued its own coinage, following in its silver and copper mintages whatever standard or module it pleased."[1] Among the Greeks, therefore, the second nation that used coined money, the coins were employed by each separate State for its own purposes; and with each community they passed current. They thus set an example, which in subsequent times has been often followed. In nothing else, indeed, did the genius of the Greeks more conspicuously display itself than in determining to make each State supreme as to its own money. To some this may seem a disadvantage; but if the well-being of a kingdom be considered, it must be admitted that each nation has the right of determining what *media* of exchange ought to be

[1] Ridgeway, *op. cit.* p. 238.

used for the purpose of promoting the highest good of its subjects.

Thus far, then, two things are clearly demonstrated. In the *first* place, that money was originally coined by the Lydian king Gyges, and for his own purposes. It is somewhat difficult to estimate rightly the far-reaching significance of this ruler's invention of coined money. Modern ideas of money cannot be read into his design in coining the metals; for at the inception of coinage he thought chiefly of his own advantage, or the extension of his kingdom. The coins became a convenient agent for collecting tribute, or what was due to the king from his own subjects; and their commercial use followed, after the royal design was effected. But, *secondly*, special note ought to be made of the use of coined money by the separate Greek States. Each State coining its own money, and thereby furthering the welfare and well-being of the people in it, shows that great advantage accrues wherever sufficient *media* of exchange are placed within the reach of Governments and their subjects. To this we shall have occasion to refer frequently, for it enters into the essence of monetary questions and social welfare; but meantime we simply note the fact, and proceed to follow the historical development of money.

In Hellas Proper, Pheidon of Argos was the first to coin money. His coins were struck in Ægina.[1] The date of Pheidon's coinage has been for a long time a matter of investigation and dispute. The Parian Marble places it as early as 895 B.C.; while Grote, who has given a detailed account of

[1] Vide Ridgeway, *op. cit.*, for the authorities who support these statements, pp. 211-216.

the work of Pheidon, puts it between 770 and 730. Recent research, however, proves that Pheidon flourished about 600 B.C.; and that in Greece Proper coined money was unknown before that time. Eubœa and Bœotia followed the example of Ægina. At a later date Solon greatly augmented the coinage of the country. Finding many reforms necessary, he not only made new laws affecting the well-being of the people, but he also developed a fairly complete system of coined money. He reduced drachms from ninety to fifty-four grains Troy, and made a hundred of the new ones equal to seventy-five of the old. In his time commerce had increased; coined money was unequal to the demand for it; and to Solon belongs the distinction of adopting a method of multiplying coined money, which since his time has been acted upon by many a needy king and State.

Turning from Greece to Persia, the third country that coined money, during the reign of Darius Hystaspes, coins were struck. Cyrus had already conquered the Lydian kingdom of Crœsus, and must have seen the advantages which Lydia reaped from its coined money. It was, however, not Cyrus, but his grandson, Darius Hystaspes, — who succeeded the usurper Smerdis in 521 B.C.,—that coined the first distinctively Persian money. His coinage was on an extensive scale; and within a short period his coins circulated throughout the vast Persian empire.

Among the Romans, Servius Tullius, according to Pliny, was the first to coin money. "King Servius," he says, "first stamped bronze. . . . It was stamped with the impression of animals, whence it was termed *pecunia*." There is good reason for holding that the

coined money of Greece had already been in use in Rome; but the Romans had neither gold nor silver coins until a much later date. It was not indeed until 268 B.C., a few years, therefore, before the first Punic war, that silver was coined; and not until 206 B.C., during the second Punic war, that gold was struck. After this date, however, Rome became comparatively rich in gold and silver; for during the long period that her arms contended for an enlarged empire, every victory added to her treasures. From the peoples conquered gold and silver were demanded as tribute, and either in coin or in bullion, her stores of these metals greatly increased.

II

This is a convenient place for pointing out that during the period reviewed, as well as in later times, all communities beyond the rudest state of barbarism adopted some *media* of exchange. Sometimes the *media* consisted of metal; but more frequently of other substances. Pliny says that land was exchanged for iron and brass. It must not, however, be assumed, when the metals were used, that they were cast into a definite shape, or even that they bore any special stamp. It was not until coined money was invented that either of these things obtained. They simply passed from hand to hand as containing so much weight, and were valued for their use. They belonged, indeed, to the same category as slaves and cattle. But it was soon discovered that metals could be used either as implements of war or as ornaments. They were, therefore, held to possess a certain worth, and were exchanged for cattle, lands,

and other articles of merchandise. Professor Ridgeway, referring to the period with which we have dealt, states that among the Greeks "the original unit of value was a cow; and that among primitive communities, where silver had come into use, its unit, the bar, is equated to the buffalo, the unit of barter, just as," he adds, "we find the Homeric gold talent equated to the ox."[1]

Two circumstances operated, at an early stage in the development of communities, to give to *media* of exchange a definite and separate function. *Firstly*, barter soon became too complicated, and could not be carried on without some symbol or token which might express the relative price of things. *Secondly*, when States were formed, their rulers experienced a difficulty in obtaining the contribution which each subject was bound to supply, both for the support of the royal household, and the many servants, military and civil, required for defence and service. These were, indeed, as the history of money during its earliest use shows, the two chief motives which urged communities to adopt *media* of exchange.

It has been reserved for Chevalier, Walras, Taylor, Jevons, and Ridgeway to trace the gradual development of such *media* from a rude to a more perfect state. These writers have traversed the whole field. The English reader will find an admirable account of the things used as "money" in Taylor's *Essay on Money*,[2] Jevons' *Money*,[3] and Ridgeway's *Origin of Metallic Currency and Weight Standards*.[4] From these works it is ascertained that in the Hunting Period skins and furs were used as money; in the

[1] *Op. cit.* p. 27.
[2] Pp. 8–11.
[3] Pp. 19–29.
[4] Pp. 11–46.

Pastoral State, cattle and slaves; in the Agricultural State, corn and other vegetable productions; and ultimately, when manufacture came into use, cotton cloth, salt, etc.

For hundreds of years before the invention of coined money, articles of merchandise thus passed from hand to hand, and simple exchanges were made; but as trading transactions became more extensive, traders felt the need of some symbol or token by means of which exchanges could be effected. It is worthy of special notice that one of the first *media* adopted was representative money. "When skins and furs," says Jevons, "began to be found an inconveniently bulky kind of money, small pieces were clipped off and handed over as tokens of possession. By fitting into the place from which they were cut, they would prove ownership, something in the same way that notched sticks and tallies were for many centuries used to record loans of money to the English Exchequer." This clearly proves the contention, which some economists have questioned, that trade may be carried on advantageously by means of *media* of exchange which have only to a limited extent intrinsic worth. We shall have occasion to refer to this historical illustration of a principle which enters into Economics; but meanwhile we must take note of some of the more prominent elements in the origin and development of money in ancient times.

III

In the preceding paragraphs the results of a careful examination of the evidence as to the *media* of ex-

change in communities just emerging from barbarism, and as to coined money in the great Empires of the old world, have been briefly stated. In the earliest times trade was carried on, and where tribute was exacted by conquering tribes, payment of debts and tribute was made by a system of measurement. This was the most primitive method; a higher stage was reached when measurement gave place to a system of weighing; but as both were found inconvenient and tedious, the Lydian invention was readily adopted by more civilised nations; and wherever "the precious metals" could be obtained, they were either coined into money or employed as articles of ornament and use.

Thus, measurement, weighing, and coined money mark three stages in the development of money. Of the system of measurement, little is known; but of that of weighing, many instances have come down to us. The metals were made into rings. Among the Egyptians such rings were in common use. On the return of Joseph's brethren from Egypt, it is recorded, each one upon opening his sack found his "bundle of money." These bundles were rings of silver tied together. The rings had a recognised weight; and it was only when doubt was entertained, or a large amount of the metals was exchanged, that recourse was had to scales.

The Assyrians followed the same method. One of the oldest instances of tribute-payment is referred to by the prophet Isaiah; and this was evidently made by a system of weighing. Hezekiah had just paid a heavy tribute to Sennacherib, the Assyrian monarch; but the prophet, describing a bright future for Israel, asks, "Where is now the accountant?

Where the weigher of tribute?"[1] The people thus addressed must at once have apprehended the import of these questions, since they were daily observers of the method of weighing in common use. The Assyrian records recently brought to light also show the same practice. Conquered nations were obliged to pay tribute in rings of silver and gold. These could only be secured by exchanging articles of value for them. Having thus purchased the money of the country to which tribute must be paid, they brought their tribute in the form of gold rings, and paid it to the conqueror. The rings were duly attested by scales, "on which solid images of animals in stones, or brass in the shape of recumbent oxen, took the place of our weights." This practice obtained extensively, and long before gold coins were struck. The gold rings, however, bore no stamp. The gold was bullion, and nothing more. Like other articles of commerce, it was valued on account of the use that might be made of it; and it represented treasures.

But as time went on, and before coins proper were invented, representative money seems to have played an important part both in rendering tribute and aiding trade. Such things as cattle, corn, and fish could only be exchanged at great inconvenience and trouble. In order, therefore, to facilitate the exchange of such articles, metals bearing their imprint were cast, and passed as money. These pieces of metal were entirely symbolic—mere tokens, or, in modern terminology, "money of account"; for they were only exchanged for the articles which they represented. Traders might carry on a series of

[1] Isa. xxxiii. 18, אַיֵּה סֹפֵר אַיֵּה שֹׁקֵל.

exchanges by means of them; but each in the last resort was valid only for the article stamped upon it.

Professor Ridgeway devotes several pages of his work to prove that the signs stamped upon the metals were not, as is often assumed, religious symbols, but representations of the objects of barter of more primitive times. "The story of Pheidon," he says, "having hung up in the temple of Hera at Argos, the ancient currency of nails of copper and iron, as soon as he struck his first issue of silver coins, if not absolutely true in all details, at least contains a most probable statement of what did actually take place when a real silver currency was first introduced. We have seen," he adds by way of explanation, "how the Chinese, starting with a barter currency of real hoes and knives, the objects of most general demand, gradually replaced those larger and more cumbrous articles by hoes and knives of a more diminutive size, until, finally, they became a real currency, when they had been so reduced in size as to be utterly unfit for practical use. We saw, likewise, how that, at the present moment, the real hoe is the lowest unit of barter among the wild tribes of Annam, and that small bars of iron of given size are used in Laos, and that plates of metal ready to be made into hoes, and hoes themselves, are employed by the negroes of Central Africa, whilst on the West Coast axes of a size too diminutive for actual use are employed as a real currency. As the day came when the Chinese finally replaced the archaic knife by the full developed copper coin, called the cash, so the Æginetans and the Argives of the days of Pheidon superseded by a real coin ancient monetary units consisting either of implements of iron and copper, or bars of these metals of certain definite

dimensions, or possibly mere Lilliputian representatives of such, which had previously served them as a true currency."[1]

We have quoted this passage at length because it supplies evidence that in the development of *media* of exchange, "money" of a representative character was at an early period called into service. As in modern times *paper*, which is symbolic, plays such a large part in trade and is of great use, so, in obedience to a principle dictated by common sense, men in times far removed from the present, perceived the advantages to trade when representative money was employed.

IV

The history of money in ancient times brings another element into view. Among the Greeks, especially at Athens, there were in use two measures of value, one known as the Mina of the State, *ΜΝΑ ΔΗΜΟ*, and the other as the Mina of the Market, *ΜΝΑ ΑΓΟΡ*. Several explanations have been offered respecting the purposes which these measures were intended to serve; but that which lies on the surface is manifestly the most reasonable. Both being under the control of the Government, it is therefore legitimate to assume that the Mina of the State was employed in connection with the National Exchequer, while the Mina of the Market must have been used in commerce.

We have already seen that each Greek community had its own mint, and that each regulated its own money. Each State, indeed, claimed the right of determining what within its borders should pass as

[1] *Op. cit.* p. 312.

money, and must therefore have had its own measure of value, known as *MNA ΔHMO.* But the sweep of commerce being always wider than that of any single State, a common measure of value which other States might recognise must therefore have been a necessity of trade; and this, we surmise, is the most satisfactory explanation of the *MNA ΑΓΟΡ*, the Mina of the Market.

It will be seen, then, how with the lapse of time, and the needs of States and trade, the further natural development of money took place. At first, and for a long time, as already noted, rulers and traders were obliged to be content with the cumbrous methods of measuring and weighing. At length "money" became more and more representative of the original articles of barter, and was accepted as a part for the whole, being "money of account." This, however, was superseded by coined money, and finally there were States which issued their own money—just as at the present time countries like Canada, Scandinavia, Holland, and Java, issue money current in the respective countries only[1]—for use in these States, while they also recognised other money necessary for commercial purposes beyond their own Governments.

At the period when Greece had reached her intellectual zenith, the different substances used as money, and the use which was made of them, had already been submitted to philosophical investigation. Economists then as now looked beyond the *media* of exchange, and were able to distinguish between wealth and its signs. A man, says Aristotle, may have gold, and yet "perish with hunger, like Midas

[1] *Vide* Report of Committee on Indian Currency, 1893, p. 20.

in the fable, who, on account of his insatiable desire, found all things set before him turned into gold; for which reason people look about for something else by way of riches and wealth, and rightly so; for according to nature there is a difference between the getting of money and real wealth; and the latter is the true object of economy."[1] When reflections such as these are possible, a great development in the use of money is marked. The writer's clearness of insight is the measure of progress attained. One can scarcely help wondering how, with such ideas of money placed before them, the Greeks did not advance even further, and anticipate developments which belong to recent times.

V

As might have perhaps been surmised, however, it was within the Roman Empire that money played the most important part. The Greeks, it is true, following their artistic taste, made great improvements upon the crude forms which money-tokens had assumed under the Lydians; but the Romans most of all developed the use of money, and in their hands it became a powerful element in their national prosperity.

Servius Tullius was, as we have seen, the first to coin money; and, synchronously with the establishment of his mint, he also instituted the Census. Now, the Census was without doubt intended to be an effective instrument of taxation. It may indeed be held, as many writers contend it ought to be held, that one of the objects aimed at in having the people enrolled[2]

[1] *Vide* Aristotle's *Politics*, Book i. chap. 9.

[2] ἀπογράφω is the word used by Luke in describing the enrolment ordered by Augustus Cæsar.

was to ascertain the numerical strength of the empire; but that, while one, was not the sole, or even the main design of the Census; for it was chiefly intended to serve the purposes, in the *first* place, of knowing what revenue was due to the Roman Exchequer, and *secondly*, as affording an aid in the collecting of that revenue.[1]

Within the Roman Empire, as elsewhere, the subjects were bound to support the State; but it was manifestly quite impossible for all who acknowledged Rome's sway to bring their commodities and lay them at the feet of the ruler; and even had that been possible, there would soon have been a surplus of articles which could not have been of any use. All such difficulties were, however, obviated by the use of coined money. It served as a convenient agent for collecting taxes and tribute, and represented what was due to the State's Exchequer. But Rome did not possess gold, silver, and bronze in sufficient quantities to represent all taxes and tribute, as well as to meet all the needs of trade. It is at best only conjectural what amount of the metals, used as coined money, Rome possessed. Authorities differ greatly in estimating the amount.[2] If the highest estimate be accepted, it is still manifest enough that the actual money in circulation was inadequate, and therefore recourse was had to the expedient adopted by Solon. The weight of coins was gradually reduced, while

[1] *Vide* Tacitus, *Ann.* i. 11, for a notice of the *breviarium totius imperii.*

[2] *Vide Encyc. Brit.*, article "Money," p. 728, for a statement of the sum of money Rome is said to have had at different periods. It ought, however, to be pointed out that Professor Bastable's conclusions are strenuously controverted by Mr. Del Mar (vide *History of Precious Metals*, pp. 201–206).

their nominal value was retained. The *as*, for instance, was originally a pound weight of bronze, but at the time of the Cæsars it did not exceed a twenty-fourth part of its original weight.

We have already pointed out that in some of the earlier States that which passed for money did not have any intrinsic worth. A piece of skin or fur, a representative article, served the purpose. Rome did not revert to such symbols of wealth; but within the Empire, coins, lessened in weight, were used as measures of value; and to the extent that they represented more than their actual market price they were symbolic. In this manner money was increased, and the coins, being sanctioned by the State, circulated freely throughout the vast dominions owned by Rome. Had not some such expedient as this been adopted, it is doubtful if obligations due to the National Exchequer and the needs of commerce could have been met. Both ends, however, were served by means of coined money. The Government was supplied with the *media* which enabled it to carry on the affairs of the State. Trade was rendered easier. Articles of use or ornament were exchanged. As with us, so with the Romans, money represented real wealth. With it as a medium of exchange and symbol of value, lands and labour, slaves and cattle, were bought and sold; and, as at the present time, when one merchant exchanges articles of commerce for those belonging to another merchant, commodities were often made to pass from hand to hand, even though the owners never set their eyes upon anything save the representative money. In many instances, as has already been shown, the symbol or medium of exchange contained only partial value, the weight of coins being

lessened while retaining their nominal worth; and again, as under modern conditions, where large transactions are conducted by *paper*, gold being neither seen nor handled, it sometimes happened that extensive business was carried on by these symbols or tokens.

We shall have occasion, when we deal more specifically with real and symbolic money, to point out what are the proper functions of silver and gold; but at this stage we anticipate our remarks only to the extent of saying that silver and gold ought to be used like any other article of commerce. They may be coined, and in that form pass from hand to hand at their market price; or they may be kept in bullion, or used as ornaments. In any one of these forms traders may be content to substitute paper bills for them, only insisting that gold or silver shall be produced when the bills fall due, and are presented. Risk may be incurred in such circumstances, but it cannot be greater than when dealing with any other article of legitimate commerce. Such use, however, of the precious metals is different from "money" issued by the State, and which is like the modern banker's fiduciary notes. Money in this latter sense the people of every country have a right to claim; and where it does not exist, the necessary conditions to prosperity are wanting, and poverty and distress are keenly felt.

There is then, as history testifies, the strongest reason for holding that (*a*) when money was first coined, the king was the mintmaster; (*b*) that he used the money for his own purposes, or those of the State; (*c*) that he found it a convenient agent for collecting taxes and tribute; (*d*) that trade as a

secondary end was also served by means of it; and (*e*) that the king had every inducement to keep the issue of money in his own hands.

The Romans, profiting by the experience of other countries, were too practical a people not to recognise the advantages of coined money, and the ends it could be made to serve. The successors of Servius Tullius employed his legacy most extensively; and wherever the Roman legions found a footing the subjugated people were obliged to have themselves enrolled; and that for the purpose, among others, of paying taxes or tribute. The levying of taxes was therefore in process of time called *consuetudo*, custom, and the cutting off of the portion due to the State *excisum*, excise, two terms which have come down to us and are retained for the purpose of expressing what is claimed by and given to the Crown.

CHAPTER VIII

THE USE AND DEVELOPMENT OF MONEY IN BRITAIN

I

ENOUGH has been said respecting the origin and use of money in ancient times; the influences which operated in causing a change from simple barter to representative money; the principles which led to the adoption of coined money, and the practices founded upon these principles. We proceed, therefore, to note the use and to trace the development of money in Britain. During all the years that have come and gone, with their momentous political and social changes, we shall find ample evidence, in the *first* place, of money circulating within the country as legal tender, just as it did in the Greek States, and, as at present, in countries like Canada, Brazil, and, indeed, in all countries more or less; *secondly*, of money being used for taxation purposes, and claimed by the king, who governed the Mint at his royal pleasure; *thirdly*, of the repeated efforts made to multiply money, both by lessening the weight of coins while retaining their nominal value, after the example of Solon and several Roman rulers; and by debasing the coins as Dionysius of Syracuse[1] and the Romans during the first

[1] *Vide* Head's *Coinage of Syracuse*, for an account of the debasement of coin by Dionysius.

and second Punic wars are known to have debased their coins; and *fourthly*, of tallies being used as an excellent substitute for coined money, and of these tallies also preparing the way for the employment of paper money, which now plays such an important part in all commercial transactions.

Much uncertainty prevails as to the date when coined money was first used in Britain as a medium of exchange. The statement is, however, well attested that at an early period after the Romans had conquered the country, they obliged the Britons to use coined money.[1] But it is now also beyond doubt that the coins practically forced upon the Britons were not at first used for purposes of commerce. They were intended as an easy method of exacting tribute. Commodities had, of course, to be given for them, but their chief design was to render to Cæsar the tribute he claimed, and such tribute was paid in these coins. Camden, indeed, says, "that this sort of money did not pass current in the way of trade, but was at first coined for a special purpose; that after Cæsar had imposed a tribute upon the Britons, and they were afterwards oppressed with customs and other taxes for corn-grounds, plantations, groves, pasturage of greater and lesser cattle, such coins were first stamped for these uses. . . . I am," he adds, "the more confirmed in this opinion, because in some of the British pieces, there is the mintmaster stamping the money with *taxia*, which among the Romans signifies a tribute-penny."[2] Fantastic figures were stamped upon the coins to remind the Britons that they had been con-

[1] *Vide* Leake's *Historical Account of English Money*, p. 11.

[2] Quoted by Leake, *op. cit.* p. 8.

quered by a superior power, and that tribute was due to Cæsar. So long as the Roman legions held Britain, the coins seem to have continued in circulation; but, according to Leake, upon the withdrawal of the Roman arms they fell into disuse.

The question is still far from being definitely settled as to the time when coins were again brought into use. The barbarian hordes which swept like an avalanche over Europe completely destroyed whatever civilisation and art had flourished in Britain; but when the rush of the invaders ceased, civilised customs again prevailed. It is uncertain whether the Anglo-Saxons used coined money previous to their conversion to Christianity. In the year 596, Gregory the Great sent St. Augustine and his forty Benedictine monks on their famous mission.[1] They settled in Kent, where Ethelbert reigned. The king and his subjects were won over to Christianity; and very soon after their conversion, coins appear in circulation. The first known to have been in use was the *sceat*—a coin rough-shaped, and representing portions of property due to the king. The word *sceat*, indeed, means *part* or *portion*; and a person having paid his tax was said to be "sceat free."[2]

When the seven Anglo-Saxon rulers, among whom the Island was then divided, embraced Christianity, another coin appears to have come into use. This was the silver *penny*, which had emblems of Christianity impressed upon it. The first definite mention of the penny is found in the laws of Ina,[3] king of the West Saxons (688–726). This king

[1] *Vide* Reid's *Mosheim*, p. 213.

[2] From this comes the expression "scot free."

[3] *Vide* Lombarde, *Leges Inæ*.

granted to the Church of Rome the privilege of levying the tax known as "Romescot," or "Peter's penny." Offa, king of Mercia (758–796), confirmed this privilege. He himself coined money "without parallel in the money of this island."[1] There is therefore good reason for holding that the penny, like the coins of the Romans imposed on the conquered Britons, was originally used for taxation purposes, only in this instance the penny was evidently intended to express what was due for the support of the Church. It served the purpose of collecting "Peter's pence" in a convenient form. By many writers the penny is assumed to have represented a fine or punishment in the form of a tax; and they have therefore derived the word from *pœna*. The surmise of Taylor, however, is better supported. He derives it from *pœnitere*; and holds that it "was not so much a penal as a penitential offering. The conversion of the Anglo-Saxon kings," he adds, "occurring as it did in connection with the new coin, the new name, and the new tax, materially strengthens this conjecture respecting the long disputed origin of the penny."[2]

But whatever its origin, the penny was originally an Anglo-Saxon coin;[3] and was used by the Church of Rome in Britain in collecting ecclesiastical taxes. The Church, indeed, continued for many years to issue her own money from her own mints. At Canterbury there were, for instance, in addition to the king's mint, two for the archbishop and one for the abbot. At Rochester two belonged to the king

[1] *Vide* R. Ruding's *Annals of the Coinage of Britain*, vol. i. p. 235.
[2] *Currency Investigated*, p. 28.
[3] A. S. *penig;* Ger. *pfennig;* Ice. *peningr*, cattle, money.

and one to the bishop; and in London the Church had several mints. Her receipts were said to be "half as great as those of the king." It was only when the State asserted its power over the Church, that her mints were closed, and her money ceased to circulate.

II

It is difficult to trace with any degree of exactness the history of money during the turbulent times previous to the Norman Conquest. Coins may have been more or less in circulation. The kings of the Anglo-Saxon Period derived a part of their revenue from fines imposed for various offences. These fines were sometimes paid in coined money; but the petty rulers of each part of the country were then more frequently supported by commodities being brought to their respective houses. When, however, we come to the time of William the Conqueror, we are on safer ground. Succeeding in establishing a more settled form of government, he required the aid of coined money. Leake tells us[1] that the Norman coined a great quantity, and substituted it for goods and service. Bread, for instance, for one hundred men was reckoned as worth one shilling; a ram or a sheep, or provender for twenty horses, as worth fourpence.

The coins of William soon passed into the hands of the people, and were used in the interests of trade. Commerce reaped a certain benefit from their use. Commodities were multiplied, and greater prosperity marked the times. But while this is recognised, it must not be forgotten that, as in more

[1] *Op. cit.* p. 23.

ancient States, the coins of the Conqueror were employed as an easy and convenient agent for payment of taxes. When coins could not be obtained, obligations were paid in kind.

Madox, in his *History of the English Exchequer*, has collected a vast amount of useful information as to the manner in which the revenue was collected. To him also we are indebted for a reprint of the *Dialogus de Scaccario*, a work by Richard Fitz-Nigel, Bishop of London during the reign of Henry II. The bishop relies for his information on the testimony of those who lived in the times of which he writes; and says, "that in the primitive state of this kingdom after the Conquest, the king was not furnished with a certain quantity of gold or silver, but with *victuals only* from his own farms, by means of which the daily wants of his household were supplied; and that they who were deputed to attend to these things knew how much each farm contributed. Afterwards, for pay or gratuities to the soldiers, and for other necessary uses, a revenue was obtained by fines, or benevolences, from those cities, towns, and fortified places, which did not practise agriculture; and then *coined money* sprung up. Things continued in this state throughout the whole reign of William I., and down to that of his son Henry, so that I myself have seen the men whose duty it was to take care that victuals were brought to court at appointed times, from the king's farms; and certain it is, that officers of the king's household took cognisance of the several counties from which corn and different sorts of meat, and hay and corn for horses, and other necessaries were receivable. Now, that these articles should be

supplied according to the appointed measure, the king's officers reckoned with the sheriff, the person who had charge of the county, estimating their value at a sum in pennies. A measure of wheat, for instance, equal to bread for one hundred men, was valued at *one shilling*; the carcase of a feeding ox, at *one shilling*; a ram or a ewe, *fourpence*; provender for twenty horses, *fourpence*. But at a later period, when the last-mentioned king, Henry I., took measures to allay insurrections in distant and foreign parts, it then became necessary that he should raise a sum in *coined money* equal to his expenses. When this was done, a vast number of husbandmen assembled at the palace; others, to make a deeper impression, threw themselves, on all occasions, in his way; they complained, and held up their ploughshares, in token of ruined agriculture: for they were weighed down with numberless distresses, in consequence of their whole year's provision having been, in most parts of the kingdom, carried off. Thereupon, the king, listening to their complaints, with the express advice of his great men appointed certain persons, whom he knew to be of good judgment and experience in such a work, to go through the kingdom, and to examine with their own eyes every farm; and when they had reckoned the supplies which it was accustomed to furnish, to denote the same by a sum of money. This being done, for the sum total arising from all the farms in one county they held the sheriff responsible; enjoining further, that he should pay it *by scale*, that is, to every pound by tale, six pennies should be added as a make-weight, because it was perceived that the money would become lighter by use."

This gives us a rational account of the origin and use of money during the Norman reign. The condition of things established by the Conqueror continued for many years. The history, indeed, of English money, from the Conquest till the middle of last century, is very much a repetition of what took place under William I. There were, of course, great changes; but the history of such changes proves conclusively that they were all effected by a desire to produce money equal to the increasing needs of the Crown and the demands of trade. It is not, indeed, too much to say that in every subsequent step in the development of money, we find this influence acting powerfully both upon the king and people.

We shall indicate some of the efforts made to produce more money; but instead of supplying mere tables of monetary changes, or recording historical *data* which are to be found in many works easily accessible, we purpose to select only some of the more outstanding incidents in the development of money, and to attempt a critical examination of the changes that have taken place. This will enable us to point out the bearing which such changes have on the monetary problems of the present time, and will allow us to test economic principles by the experience which history has recorded. Within the sphere of Economics the value of historical research is evident; for it supplies us with practical illustrations of monetary principles; throws light upon the operations of natural laws; reveals the evil and suffering entailed when economic laws are disregarded by ignorant or unscrupulous money-dealers; and shows the safe course which all willing to obey these laws ought to

follow. "An economic law," observes Professor Cairnes, "is a proposition expressing a tendency derived from the principles of human nature and external facts, and affecting the production or distribution of wealth."[1] The history of money exhibits external facts well attested and in sufficient numbers; but the historical record cannot be perused without observing indubitable proofs of the tendencies of human nature. Facts and tendencies, therefore, afford sufficient material for the widest generalisations; and as these are carefully made, principles and laws that tell powerfully upon the production and distribution of wealth emerge.

It is, for instance, human nature, unennobled, and not submitting to be guided by altruistic motives, to desire gains, and to compass sea and land to secure them, and that, too, without much, if any, regard to the claims of justice, or sufferings entailed. Grasping and unscrupulous men have often supplied many ugly and repulsive facts in working out their selfish ends. Wealth has been produced and distributed under the operations of this tendency. Kings, when they controlled the Mint, have followed it. The Legislature, even in times when the power of the Crown had largely passed into the hands of the people's representatives, has given legal sanction to it; and the economic laws which now govern the production and distribution of wealth are to a large extent an expression of this tendency of human nature. The deep impress made upon the development of money spells *self-seeking*.

Now, it is manifestly the duty of the economist to look beneath the surface of things; to discriminate

[1] *Method of Political Economy*, p. 177.

between a true and false tendency; to refuse the sanction of his name to whatever is not right in itself; to labour at setting aside laws which operate hurtfully; and to set himself to discover the best and most rightful conditions under which wealth can be produced and distributed. The true economist has an interest in his subject for the sake of its moral possibilities. He tabulates facts, and endeavours to discover a principle which will explain them; but he attempts both of these things that he may be able to indicate remedies for the evils of his time. His subject is essentially a moral one; its end the highest good of all classes. Nothing is therefore truer than the words of M. Anatole Leroy-Beaulieu: "*Notre mal, il faut toujours en revenir là, est avant tout un mal moral, et à mal moral remèdes moraux.*"[1]

Within the historical field we see economic principles in operation; and there is no better instrument with which to test their worth than that of the effects, moral and material, produced. Now one thing deserves to be specially noted, that wealth has too frequently been identified with gold and silver. The metals have not been taken so much as the sign of wealth, but as constituting wealth; but we have already pointed out that these two things are separable, and ought to be separated. Real wealth is that which goes to sustain life in the highest sense of the term. Gold and silver may be taken as the signs of possessions that enrich and beautify life, but they are not essential. From the earliest times, however, all civilised communities have coveted silver and gold; and the history of the period now under review is the history of the efforts that were made to produce more money.

[1] Vide *Revue des Deux Mondes*, "*Le Règne de l'Argent*," April 1894.

III

1. Beginning with the reign of Henry I., we find that a definite effort was made to make more money. Coins were clipped and broken. These practices prevailed to such an extent that within a short period a recoinage became necessary. "After this," says Leake, "all things became most dear, whereof a sore famine ensued."[1] The situation with which the king and his subjects had to deal was that created by want of *media* of exchange. Commodities could not be passed from one person to another; taxes could not be paid, because money was scarce. Now, the sufferings to which Leake and contemporary writers refer were not due to lack of goods; they owed their origin and continuance to want of money. There was food enough. The people were willing to work, but the food was beyond their reach, and their services could not be hired, because the signs of wealth, "tokens" for the exchange of articles, were few in number. Thus a condition of things was experienced which has often been repeated; for it is as true at the present time, as in that of Henry I., that scarcity of money affects credit, and leads to commercial depression, poverty, and suffering.

There are, we know, economic authorities who maintain that when a period of dull trade, with its consequent hardships, comes, distress must be traced back to causes other than scarcity of gold, the metal upon which all the money of the country is assumed to rest. We do not for a moment deny that other influences are at work; but the early and later history of social problems proves that one of the

[1] *Op. cit.* p. 48.

most powerful causes of distress is the want of *media* of exchange, which is practically, as the law stands, want of gold. Writing in the pages of the *Spectator*,[1] Mr. William Fowler has alleged that the commercial depression of the present time is not due to this cause. "I wish," he says, "to express once more my protest against the assumption, so often made, that we are suffering from 'scarcity of gold.' I do not believe it; and I think the error, if it be an error, is dangerous, because those who believe it advocate a remedy for low prices, which would, I believe, be no remedy, and would only disturb our currency, without securing the higher prices which are desired by producers." But a question of this kind cannot be settled by what a person believes. Historical evidence alone can give a satisfactory answer. Unfortunately for Mr. Fowler, the testimony of history is against the position he has taken up; and at the present time the experience of all traders proves only too painfully that their operations are hampered by the want of gold. In the days of Henry I., when as yet the device of using paper money had not been discovered, men suffered acutely from the lack of silver, then the metal coined into money; and at the present time, the extensive employment of paper money, which has a nominal gold basis only, is evidence that the vast stores of food and clothing could not be transferred from one trader to another if reliance were placed on gold alone. Gold does not exist in sufficient quantity to meet all the demands of trade. That almost all writers acknowledge; that the figures already quoted prove; and that, we may add, all who are engaged in commerce know from experience. We have, indeed, already seen that

[1] September 1, 1894.

it is the scarcity of gold which gives to bimetallists whatever justification they have for seeking to monetise silver. We think they are wrong when they endeavour to make silver legal tender to any amount; but without controversy they have abundant reason for maintaining that the scarcity of gold, accounts for much of the commercial depression of the present time, and explains some of the more serious aspects of social problems.

2. It was doubtless the condition of things with which Henry I. had to deal that led to an extensive coinage and an elaborate system of debasing coins during the next reign. Stephen (1135–1154) not only coined money himself, but he also gave the right of coinage to many earls and barons. Hence during his reign there were mints established in all the large towns. But the multiplication of mints soon led to results that were deprecated by all classes. For a brief period distress was relieved, prices rose, and commodities passed freely from one person to another. Money was plentiful, but the coins were greatly debased. The example set at this time by the kings of France was followed only too faithfully. The silver pennies, then the circulating *media* of exchange throughout Western Europe, were diminished in weight, and their purity destroyed. Charlemagne's system of coinage provided for the pound of silver being coined into two hundred and forty penny pieces. The French kings for a time adopted this system; but at the beginning of the twelfth century they set themselves to produce more money by coining the pound of silver into a larger number of pence, and also added more alloy to them. Edward and his nobles followed the latter practice; they debased their coins, and within

a short period the utmost difficulty was experienced in trying to determine their market price. According to William of Malmesbury "scarce one piece in ten was good." Complications, therefore, speedily arose, and produced uncertainty, distress, and trouble.

Thus, while in the time of Henry I. money was scarce, in that of Stephen it was plentiful; but the expedient which the latter adopted to supply money could not be justified on any economic principle. The king claimed his divine rights, and contended that it rested with him alone to determine what his subjects should accept as money. His method was simple enough, but experience proved it most disastrous, and for this reason: he did not attempt to make his money symbolic, he held that by a royal decree his coins should pass current for more than they were really worth. Had he contented himself with the issue of coins as simple *media* of exchange within the country, he might have conferred upon his people a great benefit; but he tried to do more than that, and therefore failed.

A parallel is found to what Stephen attempted in the issue of the well-known French *assignats* and the paper money of the early American States. *Assignats* and paper money were issued without limit, and also without any authority to support them. Writers have, on this account, condemned such issues of money, just as there are good grounds for condemning Stephen and his earls; but the evils into which both fell would have been obviated if a sound economic principle had been adopted. Had the king made his money symbolic and nothing more; and had the French and early American States limited their issue, they would only have

done what some modern countries have with great advantage to themselves accomplished: witness, for instance, the South American States of the present day, where *paper* is almost exclusively, but also within well-defined limits, used. It does not matter whether the money, when it is symbolic, be metal or paper. Either can be employed, though recent experience is rapidly deciding for *paper*. Metal has the great disadvantage of being valuable to a greater extent than paper; and for that reason it is not so well fitted to be symbolic of real wealth. But probably neither Stephen, nor the young American States were capable of anticipating the latest results of monetary experiments. All evolutions, whether social or physical, proceed slowly. Trial must be made of many methods. The path of progress is also one of hardship and suffering; and certainly in the development of money, acute distress has not been wanting, mainly for the reason that its proper province has only been ascertained after repeated failures.

When Henry II. in 1154 ascended the throne, he set himself to the task of suppressing the mints which the earls and barons of Stephen had so long made a source of personal revenue, and of altering the coins which had been corrupted by counterfeit. But his reforming zeal soon led to renewed distress: money was again contracted; and, as Stow remarks, "heavy burdens were imposed on the poor of the realm." There was still real wealth in the country: commodities were abundant enough; but they could only be exchanged by direct barter; and as that was now much more difficult than in earlier times, the people suffered not from lack of provisions, but

because there was little money in circulation as *media* of exchange. The old story is, therefore, repeated in the annals of Henry II. The contraction of money hampered commerce. The subsequent history of money during the reign of the next three kings is a painful repetition of what has just been described; and the reader who wishes to trace the changes that took place will find them carefully detailed in Leake's *History of English Money.*

3. The use of gold coins introduced a new element in the development of money. Until the reign of Edward III. silver was practically the highest medium of exchange. The reason, says Leake, why gold was not coined "was because they had no need of it, but as the price of all things increased, the coin was augmented in proportion."[1] Henry III. had in 1257 coined a few gold pieces, but the amount of real wealth requiring the aid of gold was not so great as to justify the coining of gold. The issue of Henry III., says Mr. W. A. Shaw, was "an act of kingly rivalry and show, rather than of commercial necessity."[2] Silver money was found to be quite sufficient; but in process of time the growing necessities of the Crown and the expansion of trade demanded a coin of greater value than silver. Gold coins were, therefore, adopted, and from 1344 held a place with silver. Bimetallism thus dates from the time of Edward III.

But the use of gold and silver coins soon led to serious difficulties. The ratio of the one to the other was constantly changing. Not yet had the economic law which governs the distribution of gold and silver

[1] *Op. cit.* p. 101.

[2] *The History of Currency*, 1252–1894, p. 12.

been seen. Haphazard methods were chosen; and the only principle which seems to have guided the Government was that which aimed at fixing the ratio at such a figure as might lead to gold, the more valuable metal, being brought into the country. For many years after the introduction of bimetallism, the Government and traders carried out monetary transactions without perceiving the natural law which governs the distribution of gold and silver. It required the patient investigations of Nicolas Oresme, Copernicus, and Gresham to instruct traders as to the operations of this law; but Oresme had not yet written his famous *Traictie de la Première Invention des Monnois*, nor Copernicus his *Ratio Monetæ Cudendæ*, and a considerable time was yet to elapse before Sir Thomas Gresham explained to Elizabeth the law which now bears his name. In the absence, therefore, of the light which only came with the labours of the above writers, commercial transactions, entailing the exchange of gold and silver, had to be carried out under the best conditions traders could supply; but in carrying out these transactions great hardships were frequently endured. Gold and silver came and went, nor was any principle seen to be silently but most effectively guiding their distribution. This period, therefore, lent itself to the service of unscrupulous merchant-exchangers; and they could not, of course, gather in gold without lessening the circulating medium, and therefore without also hampering trade and injuring the people.

Prices were at this time also regulated by the supply of both gold and silver. The supply of gold, however, was very meagre, from the period of the

introduction of gold coins, till 1493; silver was more plentiful, but "the total coinage of England, both silver and gold, did not probably exceed £3,000,000."[1] We have no idea of the extent of commerce during this period. We can only, too, gather information as to the social condition of the people from contemporary chroniclers; but the well-known scarcity of money, and the efforts that were made to keep it within the country and multiply it, do not speak well for the social conditions of the day.

The measures adopted to retain gold and silver were both cruel and useless. Parliament passed laws which imposed heavy penalties upon such as exported gold. These laws were far from being a dead letter; in many instances they were put into force in the most ruthless manner; but they availed little to stop the outflow of gold and silver. Another circumstance likewise gave the Government much trouble, and occasioned loss to the Crown. English gold coins were generally heavier and purer than those of the same denomination in use in Continental States. These coins were, therefore, being constantly abstracted; and, indeed, obeying the Gresham Law, — though that law had not yet been either perceived or formally enunciated,— coins of less value rapidly took their place. As a defensive measure some of the English kings lowered the contents of their coins; and others, tempted by the example set by Continental rulers, greatly debased their money. It is, then, little wonder that under such circumstances poverty and distress prevailed. The measures adopted by successive Governments produced little relief. Money was scarce, credit

[1] *The History of Currency*, by W. A. Shaw, p. 14.

shaken, and trade hampered. "The commercial expanse," observes Mr. Shaw, "outstripped the reinforcing supply of the precious metals,"[1] and then the same baffling problem presented itself as now perplexes traders.

We have little interest in the question of bimetallism, which for the first time appears during the period we are considering. Mr. Shaw has given an exhaustive statement of the claims of monometallists and bimetallists in the work just quoted; and upon purely historical evidence has decided for monometallism. His pages afford interesting and instructive reading. For us, however, the question of which he treats has only a value in so far as it shows the devices of Governments to solve monetary problems, and to the extent that light is thrown upon the social conditions of the people; for, in the future, the question which is likely to receive most attention is not monometallism or bimetallism, but rather how paper money may be safely and advantageously used in representing real wealth. The arbitrary selection of gold and silver, as the standard of the things that really go to make the moral and physical life strong and healthy, will become matter for surprise; and yet, when calmly considered, it will also be seen that the choice of gold and silver for these purposes marked a stage in the slow development towards a more perfect state. Socialists have certainly good reason for maintaining that while the so-called "precious metals" may remain as articles of merchandise, they cannot continue always to be the *media* of exchange, and that "tokens" will be made to serve all the ends necessary in the transference of goods. Many things, at the present time,

[1] *The History of Currency*, p. 59.

indicate that we are in a transition period. Within recent years socialists have devoted a vast amount of time and attention to the economic side of social problems.[1] Never has *paper* been employed so extensively as it is to-day. Silently, therefore, the way is being prepared for the Government exercising the right which belongs to it; and with advantage to itself and the people issuing its own money. This reasonable demand must be conceded; and the more consideration is given to the advantages it would confer, the more all who entertain and labour for the highest ideals must feel themselves obliged to support the demand. We do not say that the issue of money safeguarded by Government would represent the final claims of social workers; on the contrary, we know that in their judgment this, like co-operation and profit-sharing, is only an advance towards a more perfect state. That a higher and more perfect state than the present will come, we with them also firmly believe; but, as already so often said, if it is to be abiding, it must come slowly. Deeply-rooted institutions, even though hurtful and indefensible, cannot be altered in a day. Time is required to habituate the timorous and the naturally conservative to a new condition of things. Having regard, then, to the well-being of the great masses of the people, there is, at the present time, no reform so urgent as that of an issue of money by the Government. Other reforms may promise more, and may, indeed, imply great changes, but this, though limited, is also safe and reasonable; and it would certainly mark an onward step towards a better social state.

[1] *Vide* Schäffle, *Quintessence of Socialism*, and Sidney Webb's *Socialism in England*, chap. vi., "Socialism in Political Economy."

CHAPTER IX

FURTHER EXPEDIENTS TO OBTAIN MORE MONEY

I

THE history of money makes us acquainted with the devices of Governments to supply *media* of exchange equal to their own needs and those of commerce, We have in the previous section referred to one expedient that deserves something more than a mere passing notice, for it was manifestly suggested by the urgent claims of the Crown for more money; and it represents the sum of the Government resources at the time it was made. No other method seemed feasible; no other, at least, was tried.

The increasing population, and therefore the growing necessities of the Crown and trade, called for more money. Gold and silver were scarce. That, then, which successive kings did was to follow the historic example of Solon in Greece, and of Sulla, Pompey, and Julius Cæsar in Rome. The contents of the coins were lowered, and more money was produced from the same amount of metal. When politico-economic authorities refer to these changes, it is generally to point a moral, and to warn off all who would attempt to touch the present system. They instance the injury done to "the precious metals," and argue that trade has suffered more from the

arbitrary monetary acts of kings than from any other cause. Speaking generally, it must be admitted that there is some justification for the moral they point; but if with the aid of the historical imagination we put ourselves in the position occupied by the kings and Governments who made such great changes in the coinage of their time, it must be difficult to say what other measures could have been adopted. They needed more money. Goods had multiplied on their hands. Real wealth had increased, and they felt burdened and hampered from lack of *media* of exchange. They had not yet learned, it is true, what economists and traders now know so well—that an enormous amount of commerce can be securely carried on by means of *paper* and a small reserve of gold. But paper money being yet an invention of the future, that which they did—and it was the only thing that could effectively serve their purpose with their imperfect ideas of Economics—was to coin more money out of the same weight of gold and silver.

II

Now, just as we owe much to Leake for his careful monetary record, so we are indebted to the interesting and invaluable work of Fleetwood for our knowledge of the changes made on the coins by successive kings. We select from his *Chronicon Preciosum* a few examples, at fairly distant periods, to show what was done. Thus, in the reign of Edward III., one pound Troy weight of gold of the fineness of twenty-three carats, three and a half grains, with one half grain of alloy, was coined into £15. In the first year of Henry VIII. the same amount of gold,

and of the same fineness, was coined into £27; but Henry VIII. afterwards reduced the fineness of the gold to twenty carats and four parts of alloy, and coined it into £30. Edward VI. restored the gold to twenty-two carats with two parts of alloy, but made it yield £53. In the time of James I. the same amount of gold, and of the same fineness, was worth £37, 10s.; while in the time of William and Mary it was coined into £44, 10s.[1]

Silver was subjected to similar variations. Thus, one pound Troy weight of silver was coined during the reign of Edward III. into 20s. 3d., and that too when it was of the fineness of eleven ounces and two pennyweight of silver with eighteen pennyweight of alloy. The ounce of silver was then worth 1s. 8¼d. During the earlier part of the reign of Henry VIII. the same quantity of silver was coined into 45s., the ounce of silver being in common estimation 3s. 9d.; but as Henry had greatly debased the gold, so also he debased silver. Out of four ounces of silver and eight ounces of alloy he coined 48s., the ounce of silver then being in common estimation 4s., but in reality 12s. Edward VI. made three ounces of silver with nine ounces of alloy yield 72s., the ounce again in common estimation being at 6s., but in reality at £1, 4s. James I. restored the coinage, and coined eleven ounces of silver and two pennyweight of alloy into 62s.; the ounce of silver stood at 5s. 2d.; and, coming to more recent times, we find that during the reign of George III. a pound weight of silver was coined into 66s.[2]

The history of these variations is instructive reading. Side-lights are thrown on the social condi-

[1] *Vide* Fleetwood, pp. 24, 25. [2] *Ibid.* p. 52.

tion of the people. Great changes, often attributed to political causes, are seen to have been more frequently due to monetary crises. For these reasons alone neither the historian nor social reformer can overlook these changes. They mean more than a mere question as to the "battle of the standards." Social problems cannot be understood apart from them. A satisfactory solution of such problems cannot, indeed, be discovered unless along the line of historical investigations, which reveal startling variations, and oblige an answer to be given as to what produced them.

But to the economist the constant lessening of the contents of coins by Continental States and the English Government has a special value. This bears directly upon wealth, and it is his duty to understand wealth in all its phases. The following things deserve attention :—

Firstly, It is matter of history that monetary changes were, to a large extent, produced by the relative supplies of gold and silver, and also that they were not infrequently the results of the "crafty manipulation of the currency by European rulers." Until the discovery of America the supply of gold and silver was limited; but when the New World was opened, there came also a great inflow of the metals. "The decline of money," says Sherwood, "culminated in the long dearth of the Middle Ages, and extended to 1493."[1] No great change took place, Mr. Shaw remarks, until 1520. Gold was depreciated slightly. The opening of the mines at Potosi, now Bolivia, about 1545, supplied a vast amount of silver. Twenty years afterwards gold

[1] *Op. cit.* p. 101.

became greatly appreciated. European rulers, therefore, set themselves to regulate the money in gold and silver. Their currencies "were all unconsciously bimetallic." Merchant-exchangers, without understanding the *theory* of bimetallism, grasped the *fact* and profited by it.[1] Continental States gradually raised the denomination of their coins. England, as "an act of profitable defence and currency safeguard," followed their example; but her rulers were often slow to apprehend the significance of the changes. Her coins, containing more gold or silver than those of the same denomination on the Continent, were speedily exported. Bullionists made large profits,[2] nor did threats of heavy penalties deter them from carrying away the metals. Meanwhile, sufferings grew in intensity until they culminated in the great distress and commercial crisis of 1662. At that time, however, there was a surplus of goods in the country; "wools and cloth had grown useless, and the people desperate for the want of work."

These well-attested historical facts prepare the way for seeing, *secondly*, that the attempt to raise the denomination of the coins, or to lessen their contents, was synchronous with prevailing distress. The former accounts for and explains the latter. The supply of gold and silver, though greatly increased, was yet unequal to the demands of trade and the needs of Governments. This was perhaps first recognised on the Continent; certainly Continental States set the example of lessening the contents of their coins; and this they did for the purpose of supplying more money. In England the cry for circulating *media* was equally loud; and in answer to the clamant

[1] *Vide* Shaw, *op. cit.* p. 64. [2] *Ibid.* p. 153.

demand, as well as to put English money on a par with Continental coinage, the denomination of gold and silver was raised. More money was thus produced. The coins, too, were chiefly intended for the benefit of home traders, and were for circulation in the country. Hence public officials, known as the King's Exchangers, were appointed, and held office in all important cities, and at many seaports. It was their duty to exchange foreign for English money to those leaving the country, and to supply travellers coming into the country with English for foreign coin. This system obtained widely, and also operated to the advantage of the Crown.

Thirdly, the constant variation in the coinage constituted a distinct effort, not only to make more money, but also to give to it more and more a symbolic character. The coins, for instance, which circulated throughout the country were not always of the same weight. As we have already seen, a pound weight of silver was at one time coined into twenty shillings and threepence, at another, into sixty-six shillings. The pound Troy weight of gold, of the fineness of twenty-three carats, three grains and a half, with one half grain of alloy, was at one period coined into fifteen pounds, and at another, when only of the fineness of twenty-two carats, was coined into forty-four pounds. Or, to put it in another form, during the reign of Elizabeth the ounce of gold was coined into two pounds fifteen shillings and elevenpence, whereas, in the time of George III., the same amount was made to yield three pounds seventeen shillings and tenpence halfpenny. The gold sovereign of Elizabeth was, indeed, as these figures prove, forty per cent. heavier than the present sovereign.

And, as an interesting commentary upon all these variations, we may add that while from Elizabeth's time and onwards silver was coined at five shillings and twopence per ounce, and was an unchanged quantity upon which all contracts entered into before 1816 were based, the ounce of gold was constantly being made to yield a larger number of coins, reaching an extremely high point during the reign of Charles II., when it was coined into three pounds fourteen shillings and twopence.

The same feature is seen if we make even a wider survey; for if we go back to the reign of Edward I., and compare the amount of money produced out of the same piece of silver in his time and that of Elizabeth, we find the difference to be that between twenty shillings and threepence, and sixty shillings. Gold, again, was subjected to a similar extension. A pound Troy weight was made to yield fifteen pounds in the reign of Edward III., and in the time of William and Mary, when it was of less fineness, forty-four pounds ten shillings; the difference being the large sum of twenty-nine pounds ten shillings.

III.

Now, these figures prove in the most conclusive manner that gold and silver coins are largely symbolic. We do not animadvert upon the causes which made European rulers increase the coinage. They may have been justifiable or not; that, however, does not affect the question at issue, and therefore we accept the facts, that a pound weight of silver for a long period went on yielding an increasing number of coins; that there came a time when the yield of silver

coins was fixed; that a pound Troy weight of gold passed through the same process; that for a considerable time after silver was fixed, a given quantity of gold continued to yield an increasing number of coins; and from these facts we draw the conclusion that coined silver and gold partake more of the character of *moneta* than of *pecunia*. The metals, indeed, when coined, become representative. When Sir Robert Peel introduced his Bank Charter Act of 1844, he was obliged to deal with this very question. Accordingly, he is reported to have inquired of the members of the House, "What is a pound?" and to have answered his own question by saying, "The meaning of a pound is neither more nor less than a certain definite quantity of gold, with a mark upon it to determine its weight and fineness, and that the engagement to pay a pound means nothing more, and can mean nothing else, than the promise to pay to the holder a definite quantity of the precious metals." To bring this home to the members, he is further reported to have held up a sovereign, remarking, "This, gentlemen of the House of Commons, is a pound." But a sovereign contained at one period more, and at another less, gold. The difference, indeed, between its contents in one reign and another was very great; and therefore Sir Robert Peel's definition is only true with an important explanation, which in turn modifies greatly the question at issue. The sovereign is a piece of gold stamped with a Government mark which makes it legal tender. It represents a certain amount of value. It is the legal symbol of that value, and as such measures articles of commerce. The same quantity of gold as is in a pound, if uncoined, would not pass

for a pound; it would have no legal weight; and therefore it is gold coined and bearing a Government mark which constitutes the pound and makes it legal tender. For this reason the pound is representative.

The importance of this distinction cannot be over-estimated in considering questions of money; for if in past times, in obedience to the needs of Governments and expanding trade,—to say nothing of changes dictated by grasping rulers and merchant-exchangers,—out of the same amount of gold or silver a constantly increasing number of coins was produced, it must still be open for European Governments to provide themselves with more money. The same causes are still operating as were felt when successive rulers altered the contents of their coins. The causes are present, indeed, in an accentuated degree. The outlay of Governments, for instance, has grown to an extent little imagined when the present denomination of coins was fixed. Trade has increased enormously; with money limited by conditions entirely different from those obtaining at the present time, hardships are experienced; taxes are put upon commodities; the obligations of the Crown must be met, and the only way to do this effectively is to lay a large part of these obligations on goods: but the purchasing power of money is also lessened; and a smaller quantity of articles for consumption is obtained for coins which, when their present contents were fixed, purchased so much more of commodities.

Now, we submit that under such conditions as these, social sufferings and distress must prevail; and that the economic foundations of our monetary system cannot bear investigation. It is easy, of course, to

rest satisfied with things as they are, if one is in fairly comfortable circumstances, if he has clothing and food in abundance; and it is equally easy, if one has approached the consideration of economic questions with a strong conviction that our present attainments are the best possible, and are the outcome of excellent economic principles; but such an easy attitude is impossible if one's investigations are carried out in a strictly historical manner, and if, in pursuing the historical method, he sees how much of the sufferings of the present day are due to the operation of false economic principles.

IV

Since the sovereign is partly symbolic, and its contents have often been changed to meet the needs of commerce and the requirements of Governments, one of two things ought to be done, either the coinage should be lowered to provide more *media* of exchange, or a medium should be adopted that would permit gold and silver to rise and fall with other commodities. We may, it is true, be far from accomplishing either of these things; for economic truths are as yet imperfectly apprehended by the great mass of people. There is, however, no reason why a step towards the latter alternative should not be taken. The Government ought to issue its own notes. This is practicable; and perhaps is as far as Parliament may be prepared to go. We are aware, in arguing for this modified but necessary monetary reform, that many writers in the leading journals which sway public opinion contend that the nation's prosperity is affected little by the scarcity or abundance of gold and silver.

Prosperity is attributed to the energy, the skill, and labour of the people. This is undoubtedly true so far; but, history being witness, it has again and again been seen that, though all these qualities have been present, and vast stores of real wealth have been accumulated, yet thousands of the people have been in a starving condition for no other cause than want of *media* of exchange. Scarcity of money powerfully affects credit, and lies, indeed, at the root of all commercial distress. The lack of money, too, at the present time explains much of the sufferings that are endured. Meanwhile, fiduciary and symbolic money is issued by the banks of the United Kingdom; but this money is being used largely for the benefit of the few. On a recent occasion, Mr. Handasyde Dick brought a proposal before the Glasgow Chamber of Commerce which had for its aim to urge upon the Scotch banks "the incidence of their present policy, and terms of business to the public," and to invite them to consider "whether, in the present depressed state of industry, commerce, and agriculture in Scotland, the country can equitably support the charges made upon it by its associated banks for the services they render." In arguing for his proposal, Mr. Dick contended that the banks should be satisfied with smaller dividends; and maintained that "the public of Scotland expected, and was entitled to, cheaper and better banking facilities from the Scotch banks *on account of the privileges of note issues enjoyed by these banks, and granted by Government representing the public.* The present position," he said, "was the reverse of this. The Scotch banks were using their issues, not as a national trust and equitably, not in

the interest of the public at all, but against the public interest, for their own money gain, and for the purpose of maintaining their banking monopoly. The public," he remarked, with much truth, "would not *knowingly* tolerate a banking monopoly on any such footing, and could doubtless readily find relief by petitioning Government in favour of the known policy of the State as to note issues."[1] The people, however, have not yet awakened to their interests. Large privileges are given to a few individuals, and they use them to their own advantage; and though both sound economic principles and the testimony of history be in favour of modifications of banking monopolies, some time must elapse before reform touches this fetich.

V

We have hitherto dealt chiefly with gold and silver, and have seen what changes were made in the coinage with the object of giving to the people more *media* of exchange. The history of money makes us acquainted with another agency that powerfully affected the social conditions of the people and has told upon symbols of commerce even in the present day. We refer to the Exchange Tally introduced by Henry I., which prepared the way both for the Exchequer Bill, first issued in 1696 by Montague, Chancellor of the Exchequer, and for the use of paper money, first employed by William III.

Henry I. was led to adopt tallies for no other reason than that silver was scarce. The royal household and the State had to be provided with means for their support; and he therefore invented this new

[1] Speech in Glasgow Chamber of Commerce, March 11, 1895.

fiscal agency, by the use of which all obligations to himself and the kingdom could be rendered. Under royal warrant the wooden tallies were issued. All who served the King or State were paid in tallies. Those who thus received them put them into the hands of the people in exchange for commodities; and the Crown received them again in the form of taxes. Merchants used them for business purposes; and they served thus all the ends of money. We are indebted to Madox's *History of the Exchequer* for a detailed account of these tallies. The holder of them, he says, was entitled to receive from a representative of the Crown the amount inscribed on them. "When the sheriff came to accompt, he was to make proclamation in his county that all who had tallies of the Exchequer, touching things within his accompt, might come forth and obtain allowance thereupon."[1] If, however, any private person satisfied these claims, the tallies were surrendered to him; he might then sell them to a third party; and thus they passed from hand to hand, facilitating trade, until they were finally presented to the Crown as payment of taxes or obligations due to the king.

Many chroniclers have described these tallies. "The *tally*," says Taylor, "was one half of a four-sided rod, or staff, on which, in its entire state, the sum it purported to represent was carved in transverse notches, varying in width for thousands, hundreds, scores, pounds, shillings, and pence; £1000 was represented by a notch as broad as the palm of the hand; £100 by one the breadth of the thumb; £20 by the thickness of the little finger; £1 by that of a barley-corn; for a shilling the least

[1] *Vide* Madox's *History of the Exchequer*, chap. xxiii. sect. 13.

piece possible was *cut out*; a penny was marked merely by an *incision*, no wood being taken away. These signs were for the unlearned. For others, as well as to guard against frauds, the sum was also *written* in ink, on two opposite sides of the staff, the notched side not being one; and finally, with a knife and mallet, the staff was cleft in two, length-wise; one part, called the *tally*, or *staff*, or *check*, bearing one inscription and half the notches, being given to the person for whose service it was intended; the other, called the *counter-tally*, being laid up in a safe place, until its *tally* should be brought in by the person who had last given value for it. We have," continues Taylor, "laid aside the cumbrous rod of wood, but in the Exchequer *bills* and Bank of England *bills*, which form the larger part of our *symbolic* money, we preserve the *name*, as in *paper* we rival for cheapness the *material* of the ancient tally. *Bille* in Norman-French means a *bâton* or *staff*, and its diminutive, *billet*, still retains the signification of a *short piece of wood*. When officers now are said to be on the *staff*, it is because they are retained in pay by the Crown, which, in earlier times, provided for their maintenance by charging upon a *stipes* or *staff*, issued from the Exchequer, a certain sum sufficient for that purpose. A soldier's *billet* more plainly betrays its origin, though now made of paper: it was granted to such men as were actually employed in the service of the State, or were retained on duty at the expense of the Crown."[1]

The tallies continued in circulation and served the ends of money for several centuries. As late as 1698, four years after the establishment of the

[1] *Currency Investigated*, p. 17.

Bank of England, they were still in extensive use. In that year, says Davenant, "we had upwards of fourteen millions of tallies, lottery tickets, bank stock, and securities of the like nature which went from hand to hand, having their foundation in the public faith." The tallies thus rendered excellent service, and were of great benefit both to commerce and the Crown. It was doubtless the advantages accruing from this use which suggested the employment of paper money, and prepared the way for its adoption by William III. Paper money, however, was deprived of some of the essential qualities belonging to tallies. They were symbolic and representative of real wealth without pretending to be based upon gold or silver. They had little value in themselves, almost as little as the paper that is used for a money bill; but they were, nevertheless, adequate tokens of exchange. Issued by authority of the Crown, they were accepted by the people as convenient *media* of exchange. Paper money was also representative, but it claimed to represent gold or silver; its functions were, therefore, limited by the obligation to pay gold on demand. We do not pronounce upon the relative merits of the limited functions of paper money resting upon gold, and the more extended functions of tallies resting upon taxation; we note only the fact at this stage, and leave for a future chapter the consideration of the competing claims and advantages of both kinds of money.

The tallies circulated throughout the country, and wherever used, commercial transactions were aided by means of them. They served, indeed, as excellent *media* of exchange, and even in this respect

competed with silver and gold *media*. Articles were exchanged for them as freely as for the so-called "precious metals." It was not until paper money was introduced that they were withdrawn. In 1699 an Act of Parliament virtually substituted *paper* for wooden tallies. Paper gained the day, but unfortunately it lost the distinctive *note* of tallies. It pretended to rest on gold, and was therefore put into the hands of the people or withdrawn according to the quantity of gold held by the issuers of paper money; or, what would be a more correct statement, according to the will of such issuers.

CHAPTER X

THE NEW RÉGIME

I

We have endeavoured to show, in the previous chapters, what monetary principles were at work during the long period we have reviewed, and what practical measures were adopted to supply the people with *media* of exchange. We now enter a new field of inquiry. The new *régime* established by William III. presents wider and more complicated questions. Under the order of things which he instituted, social problems have assumed aspects of accentuated perplexity; and in many minds the conviction is growing that social questions will not be solved until a radical change is effected in Economics.

Before examining the monetary revolution of William III., and the methods he adopted to accomplish his designs, we require to look backwards for a moment, and recall again what changes were made upon gold and silver money by his predecessors.

From the reign of Elizabeth and onwards silver was subjected to few changes. The ounce was fixed at 5s. 2d., and a pound weight of silver was coined into 60s. The same amount yielded 66s. in the reign of George III., and continues to be coined into the same number of shillings at the present time. For many

years before, and also during the whole reign of William III., all things were measured in terms of silver money. Thus the changes effected on silver were few. With gold it was different. The contents of gold coins were frequently altered, and that for various reasons which we have already detailed. The broad, outstanding facts which now, therefore, present themselves are these. Henry VIII. set for his successors the bad example of debasing the coin of the realm. Towards the close of his reign coins containing a large amount of alloy were in circulation. After the Restoration, Charles II. put a great number of base coins into the hands of the people. In 1663 the statutes prohibiting the exportation of bullion were abolished. In 1664 the guinea was first coined. The abolition of these statutes remained, however, for a long period inoperative; and from the first the guinea coins were greatly debased. In 1666 the Mint was opened to the free coinage of gold. The record of monetary changes from this time is that of repeated efforts to restore the purity of the coins, and to bring English gold and silver money into harmony with the coins of Continental States. Hence the recoinages of 1696–97, carried out under the superintendence of Sir Isaac Newton;[1] of 1771, when the *guinea* was reduced to 21s.; of 1760, necessitated by the amount of debased silver coins in circulation; of 1774, when the law prohibiting the importation of light coins was passed—a law which was made perpetual in 1799, and when the first law of legal tender was enacted, under which payments in silver beyond £25 were to be paid in weight; and finally, of 1816, when a gold standard

[1] *Vide* Macaulay's *History of England*, chap. xxi., for an interesting account of this recoinage.

was adopted, and the present "sensitive organisation of credit" was established.

II

William III. appeared upon the scene at a critical juncture in the history of Britain. The country was passing through a severe monetary as well as a civil and ecclesiastical crisis. The scarcity of silver was felt on all sides. France, by raising her coins 10 per cent., had encouraged the exportation of silver. "The Jews," says Shaw, "exported it daily in great quantities. The melting down of £1000 of milled money for exportation was attended with a profit of £25 ready money and upwards, silver being coined at the Mint at 5s. 2d. per oz., but at the time of the exportation sold generally at 5s. 3½d. . . . In addition to this actual drain of coinage, the process of cutting, clipping and counterfeiting, which had been going on through the reigns of Charles II. and James II., had resulted in an unexampled depreciation of so much of the coinage as remained. A large portion of the currency consisted of iron, brass, or copper pieces plated, and such coins as were of good silver were worth scarcely one-half of their current value."[1]

The civil turmoil and ecclesiastical strife of the reign of James II. are well known, and have often received attention; but it is yet doubtful whether the true explanation of the evils of the day has been found. We suspect that not until due consideration be given to the monetary crises will the troubles of the unfortunate reign of James II. be fully understood; for there is no other single factor that tells

[1] *Op. cit.* p. 223.

more directly upon the condition of the people than that of money: and this circumstance alone justifies the great importance we attach to our subject.

Whatever the explanation of the troubles of the reign of James II., it is certain enough that William III. had to grapple with serious monetary problems. Trained in a country long the emporium of gold and silver transactions, he effected the greatest monetary revolution ever accomplished by a single individual.

It is worth our best efforts to try to understand both the design of William III., and how he carried it into execution. He had been brought over from his Dutch Provinces ostensibly to save the country from civil and ecclesiastical tyranny. When, however, he was firmly seated upon the throne, he not only gave a new government, but also inaugurated far-reaching monetary changes. We have already had occasion to note that paper money owed its origin to him, and that during his reign the tallies, which had, at least, for five hundred years supplied the people with convenient *media* of exchange, were withdrawn. We likewise owe to William III. the extension of a system of taxation that has told severely upon commerce and the social condition of the people. He engaged the country in foreign wars; and as he had to find money to carry on his military enterprises, he discovered the simple method of raising the sinews of war by means of loans of money, interest on which was paid by taxation.

But the reign of William III. was fruitful in other directions; for it was during his time, and as the result of the policy he pursued, that the Bank of England was established, and that the National Debt became a settled institution. When he ascended the

throne, there did not exist a single privileged corporation entitled to regulate the money of the country; and the National Debt amounted to a little more than half a million. The new ruler, however, soon made his influence felt, and soon also developed a far-reaching policy. The Bank of England, which has for two hundred years been a powerful *imperium in imperio*, owed its inception to his method of governing the country. The appalling monetary obligations expressed by the National Debt are further proofs of the plans he pursued. "There was," says Whitaker, a "trifling sum due when the 'glorious revolution' of 1688 brought over the Dutch King William to save the country from Popery and arbitrary government, and other evils; but in carrying out these projects he succeeded in adding to the Debt nearly sixteen millions during the twelve years of his reign." The charge on the country, for payment of which taxes had to be raised, amounted at the Revolution to £39,835; William increased this sum to £1,271,017.[1]

The method which William III. adopted in carrying out his policy can be described in a few sentences. During the Civil War, Excise taxes had been levied. It was not, however, until the first year of Charles II. that these taxes were legally imposed in lieu of old feudal dues and casualties. The obvious design in imposing the Excise taxes was to throw the burden of taxation upon the shoulders of the industrial classes. This policy was steadily pursued for many years. William seized the precedent thus set. In 1693, requiring both money and men to carry on war with France, he and his Government were not content

[1] *Vide* Whitaker's *Almanack* for 1894, p. 183.

with the services of the men as soldiers, but they also obliged the entire nation to bear the expense of the war. They did not, however, venture to draw the means of support directly from the people. They adopted indirect methods. The proprietors of land ought, as a matter of justice, to have supported the army ; for all historians bear witness that landowners originally obtained their lands on the condition that they would supply the Crown with soldiers whom they were also bound to support. But now that they were invested with legislative powers, they made new laws, the design of which was to free themselves from their just obligations.

The landlord-legislators, therefore, imposed indirect taxation upon the industrial classes ; and this taxation supplied the Crown with the means for carrying on the war. A large sum of money was urgently required. It was obtained, not by a land tax, which would have been just, but by an Act of Parliament which imposed "certain rates and duties upon beer, ale, and other liquors, for securing certain recompense and advantages to such person as shall voluntarily advance the sum of ten hundred thousand pounds towards carrying on the war against France." These "rates and duties" accordingly provided an annual sum, out of which those who had advanced the million pounds received interest on their money given to the Crown. This was, it must be confessed, a beautifully simple method of raising money. It was also a very easy plan. It might be unjust. It might bear oppressively upon the people, and even create social problems, as well as heavy burdens for future generations ; but what of such trifling objections ? The people did not complain. Complaint was,

indeed, useless, since they were powerless to give effect to any scruples they might entertain.

III

Operating thus smoothly, this method was further pursued; for in the following year, 1694, when a still larger sum of money was needed, the Government asked voluntary advances to the extent of £1,500,000. It might have been supposed that the Crown could not with good grace impose additional taxation. This, however, was done, only the people were taxed in a more ingenious manner; more ingenious, because the injustice of the measure adopted could not be so easily detected. To this day it is doubtful if the evils of the system then, and still, followed are seen by the great mass of the people. They have the clearest evidence of the Government's methods of procedure when indirect taxation is imposed on articles of consumption or use; and in the proportion in which they perceive the injustice, they demand its removal: but there is only too much reason for believing that they have not yet had brought home to them the greater evils that have issued from the new development of the Government's original method of imposing indirect taxes. It is contended that since the people share the protection which the Government gives to all alike, to holders of land, merchants, and the working classes, all are entitled to support the Crown and pay taxes. Yes; but what of the land itself? It belonged originally to the Crown; small tracts of it are still in the possession of the Crown; but the Crown gifted the greater portion of the land to persons who had either rendered service, or were favourites of kings. In

every instance, however, the gift was conditioned by obligations to supply the Crown with armed men, to support the Church and education, and provide for the poor. One by one these obligations have been shifted from the shoulders of the land-owners to those of the people. The land is left in their possession. They now only bear a proportion of the expense of the country's monetary obligations, and the people, for whose behoof the Crown originally held the land, are burdened with taxes which rightfully ought to be imposed on the land. How these drastic changes were effected the history of the period under review clearly shows. New taxes were laid on liquors and other articles; but it was also proposed to INCORPORATE by Royal Charter the parties who within a certain period advanced the additional sums of money that the Crown required for military purposes. The money-lenders, many of whom were members of Parliament, saw their opportunity, and took advantage of it. They accordingly made it a condition of their paying over the money to the Exchequer, that they should be allowed to exercise the ancient prerogative of the Crown, and issue their notes, not in name of the State, but in that of the Bank of England thus established. This was another of those trivial concessions granted by Parliament to its members or their friends, about which if any one, more daring than his fellows, ventures to speak, he is immediately warned off; for why should he question the motives of such disinterested creditors, or have the temerity to disturb the present condition of things so beneficial to the few and good enough for the many? For our part, we would not even attempt to wipe off the dust from the parchments which contain

these sacred concessions; and much less do we venture to animadvert upon them. We have too wholesome a fear of the guardians of privilege to do either the one thing or the other. With a certain measure of safety, however, we may try to understand what the beneficent directors of the Bank accomplished, now that they were invested with such extraordinary powers.

The Government of King William received gold to the amount of £1,200,000, and gave in exchange for that sum, stock paper; and at the same time authorised the Bank to issue its own notes to the amount of that stock. Everything had to be done legally, but whether righteously was another question. The Parliament of the day, therefore, passed a new Act, imposing additional taxes upon the people to pay the interest on the capital borrowed and to redeem the stock; and as it was provided that the Exchequer was to receive the Bank's notes in payment of taxes, the Government returned these notes to the Bank in payment of interest and capital. The stock thus redeemed by the Exchequer was again issued as money, and as such circulated by authority of the Government. But this Act also claimed to regulate the operations of the bankers. It pointed out how they were to carry on their business. They were allowed to use gold, silver, and bills of exchange, and to issue bank notes, only, however, as promissory notes. Acts of Parliament are, however, only justifiable in so far as they embody and express righteous principles. The subsequent conduct of the directors of the Bank, and the new Acts which were being constantly demanded, form an interesting and instructive commentary on the original intention of our law-makers, and on the righteousness

of their principles. The Bank had now the right of issuing notes that were payable not to any particular person on his order, but to the bearer and on demand. The first effect of the radically hurtful changes that had been made was soon apparent. In 1697, only three years after the incorporation of the Bank, the directors were unable to pay their notes unless at a discount of fifteen to twenty per cent.

But in 1699, two years later, a still further effort was made to confer on the Bank additional privileges. Notes no longer representing taxation, as the tallies did, but gold and silver, it was by an Act of Parliament decreed that the fourteen millions of tallies, lottery tickets, etc., circulating as *media* of exchange should be withdrawn. Bank notes took their place; and this gave to the directors enormous power. They now possessed the virtual control of the money of the State, and could use it at their discretion. The bank notes could be put into the hands of the people as the tallies were, and be used as money; but these notes carried with them a new power,—a power never belonging to the tallies,—for they contained a promise to pay in gold or silver, and not, as the tallies, to be received back in taxation.

By means of these notes, too, the bankers could gather in the gold of the country, and once having it in their possession, they could, and did, send it out of the country; a result, again, that never could have been accomplished with the tallies, since they stood for taxation, and not gold. The Bank of England had, therefore, extraordinary power. The directors had indeed, to use a colloquialism, the ball at their feet; and how they kicked it about for their own interests, and not for the well-being of the nation, the subse-

quent history of money shows. Their mode of procedure was very simple, but injurious in the extreme to commerce. Foreign exchanges being favourable, they issued their notes, and by means of them withdrew the gold from the hands of the people, and then exported it at a profit; but when foreign exchanges were unfavourable, the notes were suddenly withdrawn, prices fell, discounts were raised, and gold, by these drastic and, so far as trade is concerned, ruinous measures, was brought back to the country. All these things took place immediately after the establishment of the Bank of England, and have often happened since. Many sound economists and honourable men of business maintain that they take place in virtue of the power in the hands of the Bank directors, and as the result of their money operations, which aim at the bankers' profits, and not the people's good. This, at least, is certain, that while notes are being contracted, many business establishments fall, and commercial distress follows.

IV

But we must pause for a little to consider the grounds upon which the great monetary revolution of William III. rests. To do this with any degree of accuracy, a number of things must be kept steadily in view. The time was at hand, for instance, when European States were about to cease tampering with the contents of coins. For centuries statesmen and bullion-dealers, etc., had carried on their operations without regard to any economic principles. The lowering of the contents of coins in one country obliged the lowering of them in others; for if this were not

done, and that speedily too, gold and silver were by one means or another taken out of the country, which maintained for any length of time a fixed coinage. The contents of coins were, therefore, lessened in the most arbitrary manner; but now the time had almost come when this practice was about to cease. A substitute had, however, to be found for the system passing away. Trade was increasing; the needs of States were growing; and the demand for more *media* of exchange was correspondingly great. Recourse was had to two expedients. Banks were established, and paper in the form of bills, promissory notes, etc., was extensively adopted. The change which these two expedients indicate implied "a revolution as signal," says Mr. Shaw, "as that produced in the relation of labour to capital by the disuse of the old labour laws."[1]

Under the old condition of things, vast profits were made by bullion-dealers. They indeed exercised a considerable influence upon the heads of States. The changes which were from time to time effected on the coins in all European Governments were largely due to them; but in every instance they had mainly in view their own interests. The States which succeeded in making changes on their coins reaped a partial advantage; and to counteract the inflow of gold to such States, others pursued a policy which has been described as "a justifiable defence and currency safeguard." But, as we have already pointed out, the growing needs of Governments and the expanse of trade also operated towards producing more money, by means of lessening the contents of coins. Statesmen and traders had as yet perceived

[1] *Op. cit.* p. 160.

no other method of obtaining an adequate supply of money; symbolic money, it is true, in the form of tallies, was to a limited extent used; and by these two agencies *media* of exchange, adequate to the increasing commerce of the times, were obtained.

Now, it was professedly the design of the new system to limit, if not entirely to take away, the gains of bullion-dealers, and also to put more money at the disposal of trade. Recent writers have claimed for the new system even further advantages; for it is held that "the flow of precious metals is determined by the perfectly natural and automatic action of international trade," which, again, is guided by, and is dependent upon, the bank rate. How far William III. was influenced by such considerations as these, it is difficult to determine. There is evidence enough to show that he and his Government were persuaded that the contents of coins could not be further touched, and that no hope of obtaining money from that process could be entertained; but how far the important step he took was deliberately planned after the example of the goldsmiths, or that of the Bank of Amsterdam, founded in 1609, or how far it was the result of the embarrassing monetary circumstances in which he and his Government were placed, are questions that cannot be easily answered. Certainly he could not have foreseen all the advantages which those who are enamoured of the present system see in it; and in any case, it must have been to him a great temptation to follow the course which he adopted, for this, if for no other reason, that relief was obtained from pressing monetary difficulties. He was in sore straits to obtain the money necessary for his military projects; and, casting about for a method by which

he might raise the necessary supplies of money, it is not unreasonable to assume that the plan which he finally decided upon, as the most feasible, was that of promising to grant a banking privilege to those who lent him the money he needed, and to entrust them with great monetary privileges.

But whatever the explanation, he placed the Crown's right of issuing money in the hands of a few persons. The loan might have been added to the National Debt, then amounting to only £664,263, but William may not have imagined how great a debt the country could bear; for taxation, such as we now know it, was then only in its infancy; or he may have concluded that less clamour would be created by the method he adopted than by increasing the National Debt. Whether fear deterred him, or any other motive influenced him, can, however, only be a subject for surmise; but he took the important step of granting great privileges to those who lent him money. The Bank was accordingly established; and set about its work as we have already stated.

The Bank, as we have also seen, had not carried on its business for any length of time when it sought and obtained new privileges. Invested with these, it was put to the test of proving itself capable of stimulating trade, and of bringing to an end the enormous gains of bullion-dealers under the old system. To relate its efforts to accomplish these two objects would be to enter into a minute history of banking operations. Such a task we do not attempt. We content ourselves with saying, *first*, that while the new system is a great improvement upon the old, traders are placed, to a large extent, under the control of bankers. Holding the issue of notes in their own hands, they

can put them into circulation or withdraw them as they think fit; and they too often carry on their operations having regard to possible profits from the exportation of gold rather than from any gain that might accrue to them from loans to home traders. The needs of trade are made subservient to profitable foreign loans; and even when money is lent to tradesmen, the rate of interest is often so high that it is ruinous to the trader. *Second*, that the gains of the bullion-dealer under the old system have only changed hands. Enormous profits are now reaped by the banks, especially by those having the right of issuing notes. What these profits are may be ascertained by a reference to the annual reports of the banks. The profits of the Bank of England exceed a million per annum. The gross profit of the Bank of Scotland during the year 1894–95 amounted to £327,294, 7s. 1d. What these large sums really mean it is somewhat difficult to realise. Gains so great must at least imply that traders and working people have yielded to the Bank a large part of the produce of their toil; and this is proof that banks of issue are reaping the profits which the old bullion-dealer enjoyed. And, *third*, that the flow of the precious metal, so far from being "determined by the perfectly natural and automatic action of international trade," is largely dependent upon the action of bankers and money-dealers. We do not say that their power is absolute, or that it is so great now as formerly, but only that, having a monopoly of note-issue, they can, and do, exercise a considerable influence upon home and foreign trade, and therefore upon the flow of gold.

V

For a century after its inception, the Bank carried on its operations without any serious check or hindrance. Its privileges were safeguarded. Private persons might continue, after the custom which had long obtained, to issue notes on their own authority, dealers with such persons taking on themselves all risk: but all companies of more than six persons were forbidden the right of issuing fiduciary notes. The Bank had, therefore, no competitors save individual bankers, who, however, could not successfully withstand such a strong combination as that of the Bank. In the meantime, a few changes, already mentioned, were effected on the coinage; but these only tended to make the gold and silver in circulation and the Bank's notes better and safer *media* of exchange. Taxation also during this period grew steadily though slowly. The moneyed class supported the Bank, and found a guarantee for their loans in the taxes imposed which now began to tell more or less severely upon the people, and create some of the social problems with which we have at this day to deal.

Such, generally speaking, was the condition of things, when, towards the close of the eighteenth century, Europe was suddenly convulsed by the great political changes of the times. With other countries, Great Britain entered perforce into the fierce and fiery ordeal; and in passing through it, among other institutions which were tested, the banking system was also tried. How it was rudely shaken, and only saved from destruction by the adoption of an expedient in which the doctrinaire

economist sees no good thing, it will now be our business to ascertain.

The country was on the eve of another monetary revolution, which affected the *media* of exchange for many years. The Bank of England had supplied the Government with gold for exportation. In 1794 our allies received as subsidies £2,550,245; and in the following year a further sum of £5,724,961. These drafts of specie almost exhausted the reserve of the Bank; and when, therefore, it was appealed to by the Government for still further assistance, it was obliged to decline the aid asked. The Bank had, indeed, no gold to give on loan even at a high rate of interest. The market price of gold had risen to four guineas an ounce; and as the Bank had to pay that price, it could not redeem its own notes at the Mint rate. The Bank was therefore, at this critical period, on the verge of bankruptcy. Gold had become very scarce and dear; and the perplexing question to which the Government and the Bank had to give an answer was—How could their credit be maintained?

In the whole history of money there is scarcely anything more dramatic, and, to the economist, more profoundly instructive, than the dilemma of that moment, and the manner in which a solution was discovered. The country was now engaged in war with France. Napoleon's star was in the ascendant. His troops had been victorious everywhere on the Continent. Flushed with victory, it was reported that Napoleon meditated an invasion of Britain. Rumours of invasion, indeed, spread throughout the country. French transports protected by armed vessels were said to have been sighted in the English Channel.

Ministers caught the alarm, and announced to the Lord Mayor of London the danger that threatened the country.

VI

But the fear which these war rumours awakened was increased, and the alarm intensified, when it was discovered that the financial resources of the country were failing, and that the reserve of the Bank of England had been reduced to £1,272,000. The country was, therefore, not only in imminent danger from a possible invasion, but its financial credit was at the lowest ebb. Finding itself in this perilous position, the Government hastily summoned a meeting of the Privy Council. The outcome of their deliberation was an order which was immediately issued, forbidding the Bank of England to make any payments in cash. For a brief period this order saved the Bank, but it was not sufficient to ward off all financial dangers. Municipal corporations, merchants, and money-dealers had also to give their assent to the Government's financial remedial measures. Accordingly, the Lord Mayor of London called a meeting at the Mansion House on February 27, 1797; the Privy Council met on the same day in the Council Chambers, Whitehall; while at the General Quarter Sessions held throughout the country at the beginning of March, meetings were convened for the same purpose. The following resolutions were unanimously adopted :—

Mansion House, London, February 27, 1797.—At a meeting of merchants, bankers, etc., held here this day to consider the steps which it may be proper to take, to prevent embarrassment to public credit from the effects of any ill-founded or exaggerated

alarms, and to support it with the utmost exertions at the present important conjuncture—Resolved unanimously, That we, the undersigned, being highly sensible how necessary the preservation of public credit is at this time, do most readily hereby declare, that we will not refuse to receive bank notes in payment of any sums of money to be paid to us, and we will use our utmost endeavours to make all our payments in the same manner.

At the Council Chamber, Whitehall, 28th of February, 1797.—Present—The Lords of His Majesty's Most Honourable Privy Council—We, whose names are hereunto subscribed, being desirous to contribute, so far as we can, to the support of the public and commercial credit of this kingdom, at this important crisis, do hereby agree and bind ourselves to receive the notes of the Bank of England, in all payments as money, and to support, as far as depends on us individually, their circulation.

Surrey.—At the General Quarter Session of the Reign of our Sovereign Lord the King, holden at Saint Mary, Newington, by adjournment, in and for the said County, on Thursday, the second day of March, 1797—We, whose names are hereunto subscribed, being desirous to contribute, as far as we can, to the support of the public and commercial credit of the kingdom, at this important crisis, do hereby agree and bind ourselves to receive the notes of the Bank of England, in all payments as money, and to support, as far as depends on us individually, their circulation, for the public benefit.

By the adoption of these measures the crisis was averted. The credit of the country was saved. It became possible for the Government to carry on the war. Now, it must be manifest enough that a remedial monetary measure which could accomplish such results cannot be dismissed offhand. The doctrinaire economist may reject it, but that is not a sufficient reason for not considering its claims. If attention to these be given, it will be seen that a measure which stood the test of one of the greatest monetary crises of which there is any record, may well be taken

as capable of solving the problems that every minor crisis evokes. There is, indeed, abundant reason for holding that a note issue guaranteed by the State, whether with or without a gold reserve, would tend to minimise the constantly recurring periods of commercial depression. Hardships would certainly be lessened, and social problems more easily solved. We do not say that social questions would be solved by this measure alone. Frankly and fully we have all throughout recognised that social problems are far too complicated to be so easily remedied. Moral elements enter into them, and account must be taken of moral qualities; but this being understood, we maintain that a Government issue of notes would go a long way towards obviating periods of distress, due, generally, to want of credit, and that, again, to want of *media* of exchange. Better social conditions would thus be provided, and other remedial measures, now hampered by the distress which accompanies commercial depression, would have a chance of operating with material and moral benefits to the great mass of the people.

The history of the twenty-two years during which the Credit-saving Act of 1797 was in force, bears witness to the prosperity of that period. Large demands were made upon the nation by the Napoleonic wars, but money was plentiful, highly remunerative wages were paid, and wealth in the true sense of the term was produced. But look at the other side of the shield. The condition of the people previous to 1797 was one of grinding poverty and abject misery. Commercial embarrassments were experienced everywhere. Strife raged fiercely. Suffering was the lot of thousands willing to work, but unable to find employment.

Discontent threatened to end in revolution, for when men are sorely pressed and no relief is given, there are always those who see no way out of their sufferings but by rebellion. That is always the solution of some; it was the solution of many during this period of great distress. Previous to 1797, the Government, with the utmost difficulty, raised a revenue of twenty millions. The opposition encountered in collecting even that sum was, however, great and determined.

But when the Government, in order to save the credit of the country and avert a great national danger, passed the Act of 1797, ten millions of revenue were at once collected, in addition to the twenty millions formerly raised with so much difficulty; and in the immediately succeeding years, during which war with Napoleon was waged, the large sum of thirty-two millions, the annual charge on the National Debt, which had increased by an addition of six hundred millions, and amounted in all to over eight hundred millions, was with comparative ease collected.[1] Money was abundant; and its plentifulness relieved distress, aided production of real wealth, and opened up new fields for labour.

[1] *Vide* Whitaker's *Almanack*, 1894, for the above figures, p. 185.

CHAPTER XI

THE ECONOMIC BASIS OF OUR MONETARY SYSTEM

I

THE Bank Restriction Act was not long in operation when a powerful onslaught was made upon it; and efforts were put forth for its repeal. Two parties united and sought its abolition; in the *first* place, those who in 1797 volunteered to accept the bank notes "in all payments as money"; and, *secondly*, a number of politico-economic writers who had embraced the teachings of a school of Economics which is now entirely discredited.

We shall examine first the action of landowners, merchants, and money-dealers, who voluntarily accepted the obligations of the Bank Restriction Act. The Government, as we have already seen, stood in urgent need of money. The war had to be prosecuted with vigour. Money was required for this purpose. Application was made to the Bank of England for loans. The large drafts already made upon its reserve had, however, made it impossible for the Bank either to accede to the Government's request, or to redeem its own notes in gold. One course only was open. Government interposed, and payments in gold were suspended. The Bank was permitted to issue notes equal in amount to the

Exchequer bills authorised by Parliament. These were to circulate as legal tender. A further pledge being given by landowners and merchants to accept the bank-notes "in all payments as money," the Bank replied that all applications made on behalf of the Government would be granted. The conditions thus insisted upon by the Bank being complied with, the Act became operative.

The landowners and money-lenders entered into a definite engagement and accepted definite obligations; the former because they clearly perceived that there was no other means by which the country could be saved from invasion and themselves from greater losses. Necessity urged them. It was the best bargain they could make; and the only condition upon which they might prevent their lands from falling into other hands. Their own interests being at stake, they entered into an obligation dictated by a regard to their own ultimate benefit. With the money-lenders it was somewhat different. They saw their opportunity. The Government's need was their advantage. They lent their money upon exceedingly profitable terms; for they insisted that a return should be made for it that would amply recoup them in the event of a fall in the purchasing power of the notes which they agreed to receive "in payments as money." It seems almost incredible, when at this distant date one reads the terms which they insisted upon, either that they should have seized a time of national danger as suitable for making personal gains, or that the Government should have committed itself to the terms of the money-dealers. The facts, however, speak for themselves. They are certainly very startling. For, from 1793 to 1801 the

average price of a hundred pounds Three per Cent. Stock was £59, 17s. 6d., and from 1803 to the conclusion of the war £60, 17s. 6d. "Had the Government," says Whitaker, "adopted an opposite plan, and for every hundred pounds borrowed received the whole amount, paying five, or six, or even seven per cent., the gross indebtedness of the country on the termination of the War would have been several hundred millions less, and the high rate of interest could have been gradually reduced. Such, however, was the recklessness of Ministers, that in 1798 they raised a loan of £3,000,000, at the rate of £200 Three per Cent. Stock, and 5s. long annuity for every hundred pounds borrowed. Another instance may be mentioned. In 1815 a loan of £36,000,000 was negotiated, every subscriber receiving £174 Three per Cent. Stock, and £10 Four per Cent. With loans raised on such terms it is easy to understand how rapidly the Debt accumulated."[1] Such is the history of monetary obligations which the present and future generations have to discharge.

Now, the parties who clamoured loudest for a return to cash payments were just those who were likely to be most benefited if the Act were repealed. Landowners had voluntarily agreed to accept the notes issued at a time when national danger threatened them, but immediately upon the danger being averted, and the credit of the country restored, they demanded a return to the *status quo ante bellum.* They knew well what they were doing, and at what they aimed; for many leases had been taken on the basis of the bank notes; and with the prospect of receiving a third more of rent than they were entitled to, land-

[1] Vide *Almanack*, p. 185.

lords readily joined in the crusade for cash payments.

But those who lent money to the Government also insisted upon a repeal of the Act. They had, however, even less justification for their action than the landowners; for the latter could, at least in some instances, point to leases entered into by tenants before the Act was passed, and though it was chiefly their own interests which dictated their action in agreeing to accept bank notes, yet they might with some show of reason have argued that from their tenants, who held leases originally on cash payment terms, they were entitled to receive payment in gold. With creditors who had lent their money either to Government, or individuals, the conditions were altogether different. They gave their money on the understanding that capital and interest were to be paid in bank notes. To such creditors, it must, however, be admitted, the temptation to act as they did was very great. The price of gold in paper had risen in 1814 to £5, 13s. per ounce. If, therefore, they could obtain repayment of their loans, which had been made when the price of gold was £4 per ounce, their profits would be enormous. Unfortunately, self-interest is not an unknown element in determining the character of Acts of Parliament. In this instance it was so manifestly to the advantage of creditors to have cash payments restored, that with one unanimous voice they clamoured for the repeal of the Bank Restriction Act. Debtors, on the other hand, were not less eager that the law should not be altered. But the largest debtor was the State; and relatively, therefore, the number of creditors being larger and more powerful than the debtors,

leaving out of account the State, which was then ruled by the moneyed class, creditors were able to bring greater weight and influence to bear upon the general movement for a repeal of the Act. Never in the history of legislation did self-interest operate more powerfully than in this instance. The gains of individuals who held political power proved too strong; and the action of such individuals had much to do in producing the change of 1819, when the Act of 1797 was repealed.

II

But we must also take account of the action of certain economists. For it is doubtful whether the Act would have been rescinded, had a number of economists not taken the side of the creditors, and by their voluminous writings supported the claims that were made. It is somewhat difficult to give a natural explanation of the course pursued by thoughtful writers like Tooke, Ricardo, and Huskisson. That they believed they had good economic reasons for the policy they advocated, cannot be denied. That the influence which they exerted was very powerful is equally true; but it is just as certain that the principles which lay at the root of their Economics are not accepted by the most distinguished economists at the present moment. The new school of economists has, indeed, discarded the economic principles associated with the name of Ricardo. He and his school "proceeded by deduction from certain postulates without bringing their theories to the test of patient induction and verifying fact." They were "accustomed to speak

of their economic formulæ as if they were laws of nature."[1] It must not, however, be assumed that Ricardo has no fervent adherents. On the contrary, the *laissez faire* school of economists, the orthodox writers of the day, not only defend Ricardo with great zeal, but are ever ready to hurl their anathemas against all who venture to discuss or question the economic basis of the present monetary system. One exception only is allowed. Bimetallists, through sheer persistency in the advocacy of their theory, have earned the right to speak. The time is past, said Mr. Arthur Balfour, addressing an audience of bimetallists at the Mansion House, when to announce yourself a bimetallist "was to write yourself down in the opinion of the gentleman with whom you were speaking, as a faddist of the most dangerous order."[2] Bimetallists have purchased their liberty at a great cost. The advocate of so-called "sound money" does not now scoff at them; but if any others have the temerity even to suggest that the economic basis of the present system is open to doubt, or that a better and more defensible foundation might be laid —well, the time has not yet come when they dare speak. It matters nothing that a lengthened experience of a different system has proved advantageous to the countries which have adopted it. It avails naught that there are States like Holland and the Dutch East Indies, where neither silver nor paper is convertible into gold, which, the strong and influential Committee that recently deliberated on Indian Currency declared, carry on their trade

[1] Vide *The Church and Social Problems*, by A. Scott Matheson, p. 47.

[2] *Vide* Speech at the Mansion House, London, April 3, 1895.

transactions with perfect safety.[1] The testimony of men like Bagehot and Jevons is even set aside. Both have given it as their deliberate opinion that the present system cannot be defended upon any recognised economic principles. They say it holds together, but they also share the fear of many who maintain that it would inevitably lead to disaster if a panic ensued, and gold were demanded, since, as Mr. Clare points out, the existing debts which bankers owe to their customers, "to say nothing of the indebtedness of merchants one to another, exceed by hundreds of millions sterling the whole stock of gold that the country possesses."[2]

III

At the risk of incurring the displeasure of the orthodox economist and guardian of privileges, an examination of the economic principles which were held to have been infringed by the Act of 1797 must be made; for it was mainly upon this ground that writers rested their case, and supported the claims of all creditors who clamoured for a return to the *status quo*. First of all, it was contended that the fall in the purchasing power of paper money relatively to that of gold violated the economic principle that bank notes ought to be at par with gold. The

[1] "No difficulty has been experienced either in Holland or in her Eastern dependencies. The system of currency has always been, and still is, the same in both. There is no Mint, and little or no stock of gold, in Java, and at the same time the rate of exchange between Java and Europe is always at, or about par." The stock of currency in Holland is £5,200,000 of gold, £11,000,000 of silver, and £16,000,000 of paper: in Java £500,000 of gold, £2,773,000 of silver, and £4,250,000 of paper.—Indian Currency Report, p. 24.

[2] Vide *Money Market Primer*, p. 48.

bank note had fallen as low as 13s. 4d. What, then, was the cause of this fall? The answer which is given to this question throws important side-lights upon our subject. Was the fall, as many maintain, due to the large loans made to foreign States? or, as others hold, to the subsidies granted to our Allies during the war? Now, there can be no doubt that the exportation of gold which these loans and subsidies entailed, operated to a certain extent in making the price of gold dearer; but all experience proved that loans of gold, even though very large, could not permanently affect the price of the metal; for, paper money being plentiful, articles of consumption or use were produced in this country; and these articles, chiefly on account of their superior workmanship, found a market in foreign countries; and payment of such articles brought back the gold. There have, besides, been times when more gold was exported than during the war. The net amount exported in the forms of loans and subsidies from 1800 till 1807—the seven years during which the Bank Restriction Act was most severely tried—did not exceed four hundred thousand pounds yearly. The ordinary operations of commerce were surely sufficient to bring back this sum. That, at least, may reasonably enough be assumed. The cause of the fall in the purchasing power of gold must be, therefore, sought elsewhere. It will, we believe, be found in the enormous taxation imposed during the war; for then every article which was assumed to be able to bear taxation was heavily taxed. Commodities rose in price at a bound. Gold, however, was at that time also a commodity. The Mint price had been abolished. Gold was, therefore, allowed to rise and fall in price

in common with all other articles; and since taxation was heavy in the extreme, it told upon all commodities, gold included; and for that reason mainly the price of gold steadily rose until an ounce was sold for £5, 13s.

It might be objected that gold should not have been allowed to rise so high in price, but that is just to say either that an unquestioned economic law, founded in the natural order of things, and according to which all commodities rise and fall with taxation, ought to have been arrested; or that taxation should not have been so heavily imposed. If the former be held, those who claim for their contention the support of Economics, are bound to show that a moral necessity obliges gold and paper to be at par; or that some great injustice is done when the one rises and the other falls. It is, however, impossible, to maintain either position. There is no necessity of one kind or another obliging gold and paper to stand at par. No injustice is done by allowing gold as a commodity, which it was during the period of the Restriction Act, to rise and fall like other articles of commerce. Had the bank notes been invalidated in any way, had they not been legal tender, or had they not been accepted in payment of debts within the country, then, there would have been ground for complaint; and the basis on which commerce rests would have been shaken; but it is an economic principle that notes never fall below the sum which they represent in the country in which they circulate by authority of Government. The gold may rise in price, but debts can be discharged in *paper*, irrespective of such a rise. This is even acknowledged by an ardent advocate of

bimetallism, like M. Cernuschi,[1] and homologated by Mr. Heseltine[2] in an article already quoted. Again, if, on the one hand, it be held that taxation should not be imposed heavily, then, on the other hand, those who make this statement have to give a satisfactory answer to the question—How can the obligations which war or any special emergency entails, be met? By a special land tax? Many hold, and, as we venture also to think, with good reason, that this would be most just, since landowners obtained their lands on conditions which carried with them special obligations, from which, however, by legal, though not necessarily by righteous Acts of Parliament, they have freed themselves. But the imposition of a land tax was not then seriously entertained by statesmen. They were face to face with heavy obligations: gold in quantities, equal to their needs, was beyond their command; and therefore the only thing which they attempted to do, was to levy taxation by means of paper money, which is always "money in the State which issues it." The bank notes rested upon Government authority. They served all the ends of commerce. Commodities were bought and sold. Real wealth increased; and the situation of grave distress was relieved. This paper money was issued by the Crown. Parliament sanctioned its use, and deliberately resolved that Exchequer bills, equal in amount to the Unfunded Debt of the country, should be converted into bank notes. These notes were thus issued, and were used in discounting bills of undoubted solidity; and though they did not remain at par with gold, they, nevertheless, passed

[1] Vide *Anatomy of Money*, p. 16.

[2] Vide *Nineteenth Century*, Sept. 1894.

as money, and readily lent themselves to bear the weight of taxation, which increases in the ratio of the debts incurred by the State.

It cannot be a valid objection against the use of such money to urge that, with paper which is not at par with gold, the price of all articles was raised, for the rise in prices was just another, though an indirect, way of paying taxation. A great hardship is undoubtedly experienced, if, with increased taxes, wages do not also rise; but all experience supports the economic principle that wages do rise if money be plentiful. Manufacturers receive more money, and have more at their disposal; they can pay their workmen better wages; and these, again, enable the wage-earning classes to discharge their obligations with less hardship. It matters nothing to them whether their wages be paid in paper or gold; but that which does concern them is, that either the one or the other be accepted in payment of debts or in the purchase of articles of consumption and use.

But what, it may be asked, of annuitants, and all who receive a fixed income? Is their income not affected when payment is made in bank notes that have fallen below gold? Does not the fall in the purchasing power of such money mean for them loss? We admit that there is an apparent loss to these classes, but it is apparent only, and not real; for they are surely under an obligation to pay their share of the debt incurred in the event of a great emergency, calling for a heavy expenditure on the part of the State. Their own debts, too, are discharged in the money they receive; and if, after paying these, they have a surplus, that surplus will

go as far in providing additional luxuries under the new conditions, as gold would under the old. The burden of extra taxation, in any case, cannot be made to fall on the working classes only; if all classes must bear a share, annuitants, like others, must bear their part. Moreover, they have the assurance that under these guaranteeing circumstances, their income will always be safe, and that when taxes are remitted, they will be the first to benefit by the remission. In the event of there being no emergencies urging the State to impose additional taxes, all who purchase annuities would calculate the return they were likely to get for the price they paid for the annuities; their probable income would then be a question of commerce, subject only to such variations and changes as beset all trade transactions; and the money in which payment is made to them would always remain at par in the country. Gold might rise or fall in price, but that could not be a just cause for complaint, since annuities would be bought not in gold, but in paper money, or if in gold, then at its paper price, with the knowledge that in the same money, payment for articles of consumption and use would be made. Price, services, and payments would thus accommodate themselves to each other; and gold and silver would retain their own worth.

IV

But we must consider the operations of another economic principle, which is held to tell against the issue of notes by Government. It is contended that, being liable to an arbitrary over-issue, all

monetary affairs are in danger of being disturbed, and rendered unsafe. We frankly admit, as we have all throughout done, that if there were an over-issue, like the French *assignats*, great harm would be done, and business would be injured; but this we hold to be impossible where the issue is regulated by authority of Parliament, and in proportion to the Exchequer bills issued against the Unfunded Debt of the country. If, for instance, we select a test case, and take the issue of notes not convertible into gold during the years 1805 and 1811, we shall see that even when there was the greatest possible temptation to an over-issue of notes, the actual issue was less than the Unfunded Debt. If this case stands the test, it will be difficult to find or even to imagine a condition of things more favourable to an over-issue. Well, the Unfunded Debt during the years 1805 and 1811 amounted, on an average, to a little over thirty-seven millions; but the average of notes issued during these same years was a little over nineteen and a half millions; or, to put it in another form, the proportion of notes to the Unfunded Debt was about fifty-three per cent. Now, these figures are the records of facts which anyone may examine; they speak for themselves; and apart from any theory which may be made to rest upon them, they make the statement quite obvious that when there was the greatest temptation to an over-issue, the actual issue fell far below what was anticipated.

The issue was during that critical period carefully and strictly regulated by Parliament. The Bank of England did not issue its notes arbitrarily. Ministers responsible to the Crown, and ultimately

to the people, in every instance gave Exchequer bills. Money was urgently required both for State purposes and trade; and it was provided by means of notes, based upon Exchequer Bills. It is another and quite a different question, which we shall afterwards consider, whether the Government should not have issued its own bills in small notes, apart from the intervention of the Bank of England, which was then paid and is still remunerated by a large interest on Exchequer bills; but meanwhile we content ourselves with pointing out that an over-issue of notes was, under the conditions described, almost impossible; and if impossible during a great national crisis, when men's fears were awakened and their cupidity aroused, how much less likely an over-issue could take place under normal conditions, may be easily inferred.

But though these facts are against those who contend that an over-issue is possible in a constitutional country, there are economists who, looking at this question from an abstract point of view, claim to argue on economic grounds that there is a danger of an over-issue, and of all its accompanying evils. Let us, then, examine the economic aspect of the question. It is maintained that, since it is one of the functions of money to open up new fields of labour, and thereby to increase real wealth, if notes be not convertible into gold, there would be such a demand for notes as would soon lead to an over-issue. Now, we admit that to open up new fields of labour is, indeed, one of the most important functions of money, for an ample supply of money is a necessary condition of trade, but while commerce requires money, it is equally true that traders who must pay

interest for its use, will not employ, and will not, therefore, borrow, more than is absolutely necessary. Moreover, though trade and money act and react upon each other, it is not so much money that produces trade as that trade transactions require money. Commerce governs money. That is an economic law. The amount of money in circulation is dependent upon the amount of trade that is being carried on. Commerce must, however, find the money easily, otherwise it is hampered; for when it is difficult to obtain *media* of exchange, commerce suffers. That, again, the whole history of trade proves. Upon these general principles Economics is based. No banker, for instance, can, or will even attempt to force his notes upon a merchant. He will not lend them without ample guarantee for their repayment; while, on the other hand, a merchant will not readily burden himself with monetary debts, or accept of loans, unless his business needs money and promises a fair return for its use. An excessive issue of notes would produce commercial disaster; and the fear of that, coupled with the fact that no one will borrow them except it be for his interest to use them, must be a sufficient guard against an over-issue, and an answer to economists who object to the Government issuing its own notes.

Notwithstanding the economic principles which supported the Government's action in 1797, and the prosperity which accompanied the use of bank notes, the combined attack made upon the Cash Suspension Act was successful. In 1816 the Government set itself to the task of reducing the *media* of exchange. It accomplished this object by withholding Exchequer bills. Within two years, half of the money was withdrawn. The immediate effect of the new policy

was seen in the rapid decline in the price of gold, which fell some twenty-four shillings. This rapid fall soon brought many troubles. Bankruptcies became alarmingly common. The most substantial commercial establishments felt the severe strain. Poverty prevailed among the working classes. But this sudden and rapid change from prosperity to commercial depression terrified and obliged the Government to defer the resumption of cash payments till 1818; and as a further remedial measure, the Ministers of the Crown induced the Bank of England to increase its notes. This twofold step restored confidence, raised prices, and produced a revival of trade. While the temporary prosperity continued, the Government seized what seemed a suitable opportunity, and finally repealed the Cash Restriction Act in 1819.

V

Before following further the course of events, we must pause for a little to notice two great monetary measures which have affected the distribution of silver and gold as no other monetary changes have done. In 1816 the Government passed the Silver Coinage Act, which provided for a pound weight of silver being coined into sixty-six shillings. The reasons for this measure are given in the terms of the Act, which run thus: "Whereas the silver coins of the realm have, by long use and other circumstances, become greatly diminished in number and deteriorated in value, so as not to be sufficient for the payments required in dealings under the value of the current gold coins, by reason whereof a great quantity of

light and counterfeit silver coin and foreign coin has been introduced into circulation within this realm, and the evils resulting therefrom can only be remedied by a new coinage of silver money," the Act, therefore, prescribes that a Troy pound be coined into sixty-six shillings.

But this Act was accompanied by another and still more important Act, which established gold monometallism in the United Kingdom. This Act declares that "whereas at various times heretofore the coins of this realm of gold and silver have been usually a legal tender for any amount, and great inconvenience has arisen from both these precious metals being concurrently the standard measure of value and equivalent of property, it is expedient that the gold coins made according to the indentures of the Mint should henceforth be the sole standard measure of value and legal tender for payment, without any limitation of amount, and that the silver coin should be a legal tender to a limited amount only, for the facility of exchange and commerce."

We are not concerned with the question of monometallism thus raised by the passing of this Act, and its substitute, the Coinage Act of 1870. Much has already been written, and more will yet probably be said, respecting the wisdom of Great Britain adopting a monometallic system; but that which does concern us is that the Act fixed the price of gold at £3, 17s. 10½d. per ounce, and made the sovereign equal to twenty shillings. We are aware it is constantly urged by bimetallists that gold has no price; but that is a mere quibble, since an ounce of gold is always worth £3, 17s. 10½d.: it is not worth more; it is not worth less. It has, therefore, not only a

price, but also a fixed price, in terms of which all other things are measured.

We shall have occasion to point out how the fixing of the price of gold tells upon commerce and social conditions; but meanwhile we pass on to note the operations of the Act of 1819. The Bank of England was bound to redeem its notes in gold at the rate of £4, 1s. per ounce between the *first* of February and the *first* of October 1820; from the latter date till the *first* of May 1821, at the rate of £3, 19s. 6d. per ounce; and from May in 1821 till May in 1823 at the rate of £3, 17s. 10½d. per ounce.

Loud protests were made against the obligations laid upon the Bank, and the hardships to which merchants were exposed, but all were unavailing. Those who contracted debts in bank notes were under the necessity of paying them in gold, which could only be purchased at a great sacrifice, since the notes had fallen relatively to gold. On the other hand, great though unjust advantages had been conferred upon creditors, money-lenders, and the landed interests; and these, supported by a number of economists, succeeded in persuading Sir Robert Peel to persevere in the course he had adopted. The action of the Government brought gain to the few, and inflicted loss and hardship on the many. Prices fell; poverty ensued; riots broke out in the great centres of population. To meet the artificially increased sum due to annuitants and other State-creditors, the Government was obliged to impose extra taxation to the extent of three millions, and that at a time when suffering was most severe, and commercial transactions were carried on with great difficulty. Distress had, indeed, in 1822, become so

accentuated that temporary relief was given by the passing of Lord Londonderry's Small Note Act. One and two-pound notes were issued by bankers; and about four millions were thus added to the *media* of exchange. The Bank of England also lent its notes freely on securities both to private persons and to the State. Under the operation of these remedial measures prices rose, and relief was afforded.

It might have been assumed that there was something radically wrong with an Act that necessitated the adoption of a measure like that of the Small Note Act, which was a virtual condemnation of the monetary policy pursued by the Government so far as it referred to note issues. That, however, was not perceived, or if recognised, was not admitted. There were too many politically powerful parties in the State benefited by cash payments, and these unfortunately exercised a determinative influence over the Ministers of the day. In the whole history of political reform and monetary changes, there is no more signal illustration of what self-interest effected than in the Acts of 1816 and 1819.

For, consider to what they led. Gold, which hitherto had been legal tender to any amount, and constantly varying in price, was now, by the Act of 1816, fixed in price. During many centuries it had been allowed to rise and fall. Silver was the measure of value, in terms of which all things were estimated; but now that there was given to gold an enforced currency, whenever commodities rose in price, foreign traders naturally demanded payment for their goods in gold. They therefore received not home-made articles, but gold, which was the cheapest of all articles, since it never rose in price,

however much other things might rise. The exportation of gold led invariably to a contraction of bank notes, and this again to commercial depression; for trade depression and social distress have always followed a contraction of money.

At the end of three years all the small notes were withdrawn. The Government had guaranteed their use until 1833, but the sudden drain of gold produced a new alarm; and under its influence the *media* of exchange were contracted. The old story, so often told, has again to be repeated. The withdrawal of bank notes led to depression of trade and consequent suffering. In 1825 the circulating *media* of exchange had decreased some fifty per cent. Distress was renewed. Commercial establishments, as well as many banks, failed. Appeals were made from the pulpits of many churches to the charity of the people for relief; and the country was again in a most wretched condition. All expedients, however, failed. Relief was not found until the Bank of England was induced to take over two millions of Exchequer bills. Upon these bills loans were advanced to the larger cities of England and Scotland, where poverty prevailed. This remedial measure, which had already proved so effective, was again sufficient to mitigate distress; and therefore, in the history of the social question, as that is affected by money, special note ought again to be taken of the results produced by the issue of notes based upon Government authority.

It is a wearisome task to wade through the official documents that give information respecting the efforts put forth to alleviate the social distress of this period, and to attempt to tell the tale of the ever-changing

policy pursued by Ministers of the Crown and by bankers acting under the direction of Government. The broad fact, however, stands out with sufficient clearness. Temporary aid was afforded whenever and as often as the Bank of England was authorised to make an extension of its notes. So long as they continued in circulation, comparative prosperity was enjoyed. It would, without question, be entirely wrong to assume that this measure accounts for all the prosperity that accompanied a plentiful supply of money by which payment of debts could be made. That is not implied; and we are far from wishing it to be taken for granted; but what we do insist upon is, that no other measure exercised so much influence towards prosperity as the extension of bank notes.

VI

But to this period other important changes belong. The Act of 1708, "which made it unlawful for any association of more than six partners to carry on banking business in England and Wales, and practically invested the Bank with a monopoly of joint-stock banking," was repealed in 1826. Thereafter many banks were established outside the prescribed limit of sixty-five miles from St. Paul's.

Synchronously with banking changes great political movements were also going on. A spirit of discontent prevailed. Old institutions were attacked. The political upheavals of the time, due largely to sufferings and want, culminated at length in the Reform Bill of 1832. Great hopes were naturally entertained by the passing of that measure. It was anticipated that many social evils would be removed, inequalities

greatly lessened, and a better day introduced. The people, however, had yet to learn that they might have a reformed Parliament without practical measures of reform. To obtain a more representative House of Commons than existed previous to 1832, was to have a securer pledge of political liberty, but subsequent history proved only too conclusively that such a Parliament is not in itself an absolute guarantee of great remedial measures being passed. Self-interest throws up many a barrier. Judging solely by what has since transpired, we can now understand how the hopes which so many entertained at the passing of the Reform Bill were doomed to disappointment.

Under the influence of the bright anticipations of better times, merchants then made bold efforts to extend their trade. They had not, however, proceeded far, when they felt an arresting hand laid upon them. The gold of the country was being daily exported. Prices gradually declined. Bills were discounted at a rate prohibitive to commercial enterprise. The Bank's Charter was renewed in 1833, a year after the passing of the Reform Bill. That charter declared the Bank of England notes legal tender for all sums above £5, except at the Bank itself and its provincial branches. Invested with new powers, the Bank "increased its note circulation by five millions, and at the same time refused to discount any paper drawn or endorsed by joint-stock banks of issue."[1] This action of the Bank, combined with the simultaneous exportation of gold, led to the great crisis of 1839, when, according to Sir Archibald Alison, the manufacturing districts of Lancashire alone suffered

[1] Vide *The Bank Charter Act*, by J. Duncan, p. 121.

loss in property to the amount of £40,000,000.[1] In November of this year the bullion of the Bank of England had been reduced to £2,800,000, and the Bank was under the necessity of negotiating a loan of £10,000,000 from the Bank of France. This presented a condition of things paralleled only by that of 1824. The alarm of previous times was, therefore, re-awakened. The social problem had now assumed the gravest proportions. "Wages sank," says Alison, "during these disastrous periods in the manufacturing districts, so low, that they barely sufficed, with the great bulk of workers, especially females, for the support of existence. . . . Insurrections broke out both in England and Scotland, ostensibly for political purposes, but mainly occasioned by the general distress among the manufacturing operatives, as was decisively proved by their entire extinction when labour again received a remunerating return. Farming capital in the agricultural districts was, during the distress, everywhere grievously abridged, in many places totally destroyed. Ireland during the whole period had been in a state of smothered insurrection, and for the last four years had convulsed the country for the repeal of the Union; and the insurrection was only prevented from breaking out into open rebellion by the continued presence in that island of thirty thousand armed men, between the regular forces and the armed police. The manufacturing districts of Scotland were involved, during the same period, in such distress that in 1837 the mortality of Glasgow was 1 in 32; 1842, 1 in 30; and in the latter year 32,000 persons took typhus fever in that city, and the deaths were upwards of 10,000, out of a population not exceeding, at that

[1] Vide *England in* 1815 *and* 1845. Preface, p. vii.

period, 280,000 souls. . . . The heart sickens," he continues, "at the proofs, numerous and incontrovertible, which the Parliamentary Reports for the last ten years have accumulated of widespread and long-enduring suffering among the poor in England."[1]

It is little wonder that during such a time of commercial distress and social suffering Ministers were at their wits' end. Various fiscal schemes were tried, but all failed. A constantly falling revenue could not be checked, for the reason that money was scarce. There were capitalists enough; their money, however, was locked up in investments; and what money could be borrowed was obtained on terms that excluded all prudent persons from asking loans. Economists who had encouraged the Government to make drastic changes on bank note issues, finding that events did not accommodate themselves to their economic principles, cast about for explanations of failure. A few confessed that the enormous fall in prices falsified their anticipations, but others were either less capable of forming a judgment upon the *data* before them, or unwilling to acknowledge that their principles were at fault. Wealth was then more unequally divided than at any previous period. Riches had increased in the hands of the few. Capital had acquired a great advantage over labour. The massing of the people into the larger cities was beginning. The fiduciary money of the country was at the disposal of a few privileged Corporations. Legislators were disposed to legislate in the interests of the richer classes. The political power of the people was still limited; and how to use wisely and well the power which they did possess was as yet little understood.

[1] Vide *England in* 1815 *and* 1845, pp. 9, 10

Such was the state of things when, the Whigs being driven from office, as much on account of their inability to relieve the social distress of the times, as on account of any political misdeeds, Sir Robert Peel was called to take the reins of government in hand; and the country under his direction was on the eve of the far-reaching monetary changes that have been associated with that statesman's name.

CHAPTER XII

COMMERCE AS AFFECTED BY MONETARY LEGISLATION

I

BEFORE examining the contents of the monetary legislation under which commerce is carried on, two preliminary questions must be answered. *First*, Was the Government justified, or could moral sanction be found for its action, when the Crown's prerogative of regulating the money of the country was transferred to and confirmed in the hands of the directors of the Bank of England? *Secondly*, Had the Government the right of fixing the price of gold at £3, 17s. 10½d. per ounce, and of insisting that the Bank's notes must remain at par with gold? The answer which is given to these two questions will go a long way towards helping us to estimate the character of the monetary legislation of 1844–45, and its bearing on commerce. As to the first question, the Crown's prerogative to regulate the money of the country is indisputable. In all civilised States the ruler claims and exercises that power. In constitutional countries it is exercised through Parliament. In the most ancient empires, as we have already seen, the king governed the Mint, and determined the money for circulation within his own country. In every instance, his action was dictated with a view

to the interest of his own royal household and that of his people. Sir Matthew Hale reckons this ancient and inalienable right *inter jura majestatis*. In a famous speech before the Privy Council in 1626, Sir Robert Cotton "was of opinion, with the *Mirror des Justices*, the ancient book of our Common Law, that *Le Roy ne poit sa Mony Empeirer ne amender sans l'assent de touts ses Counts*, which was the greatest council of the kingdom."[1] In his Letter to the King, already quoted, Lord Liverpool says: "The sovereigns of most of the kingdoms and States of Europe have enjoyed and exercised from time immemorial the right of declaring at what rate or value the coins of every denomination, permitted to be current in their respective dominions, shall pass and become in that respect lawful coins, or legal tender. In this your Majesty's kingdom, your royal predecessors have always enjoyed and exercised this right."

That it belongs, therefore, to the Crown to regulate the money of the country is beyond dispute; but it is quite a different question whether the Crown can divest itself of this right, or whether Parliament, acting with the consent of the Crown, can transfer this power to other hands. If the sovereign's right be inalienable, then a grave responsibility must rest upon those who have transferred this right to corporations of bankers. The head of the State, acting under the advice and counsel of Parliament, is bound to use the power of issuing money in the interests of the entire nation. A monopoly cannot be created without injustice to commercial transactions; but monopolies have been

[1] *Vide* R. Chalmers' *Colonial Currency*, p. 38.

created; the Bank of England received in 1694 the power of issuing notes in its own name; and subsequent Acts have confirmed this right in the hands of the directors of the Bank, and conferred it upon a number of provincial banks. The Acts of 1816, 1833, and 1844–45, witness to these monopolies. The history of our monetary system, however, shows that again and again Parliament has been obliged to interpose its authority, but it has not yet taken the first step towards restoring to the Crown the prerogative of issuing money. The banks of issue still exercise a power which belongs by right to Government. Within certain defined limits they can and *do* determine the amount of notes in circulation. Commerce is more or less affected by their action. They have a monopoly, and use it at their own discretion. That is beyond dispute; and it is equally incontrovertible that their own and not the interests of trade govern the number of notes that are in circulation.

II

It ought to be said and remembered that the Government transferred the Crown's prerogative to the Bank of England at a time when Parliamentary representatives were chosen by a limited electorate. The great mass of the people had no voice in their selection. The people have suffered much, but they cannot be held to be responsible for the want and poverty to which they have been subjected. Now, however, that political power is in their hands, the blame lies at their own door if they permit a monetary monopoly to be continued in the hands of bank directors.

But it must not be assumed that an easy task lies before those who set themselves to divest banks of issue of the power they now possess. The difficulties in the path of such are many and great. The politico-economic principles, for instance, which lie at the root of the present monetary system, are somewhat abstruse and difficult to apprehend. Only a few writers are permitted to speak with authority as to the value of these principles. These writers belong to the orthodox school of Economics. Vested interests also throw up strong *sangars*, behind which positions of privilege are resolutely defended. Most people, too, hesitate before attempting what would amount to a monetary revolution; while the greatest objection to a radical change is held to consist in this, that the prosperity of modern commerce is attributed to the present system. These, however, are not insuperable difficulties. The modern spirit, informed by justice, ill brooks privileges, and will not hesitate to strike at this monopoly. To hold that prosperity is due to the monetary legislation now on the Statute-Book argues want of historical insight. Prosperity has come in spite of such legislation: for what goes to make a nation's commerce prosperous? Is it not the natural resources of the country *plus* habits of industry? Credit rests upon the character of the people and the natural resources at their disposal. If real wealth—*pecunia*—had depended upon a metallic circulation, it must have been infinitely less than it is at the present moment. It is a mere monetary fiction to speak of the country's prosperity as due to a gold basis, since there is not gold enough to pay one out of every hundred creditors. And as for the laws that regulate the

issue of notes which trade has demanded and sparingly received, they so operate that when gold has been exported, the notes must be contracted, discounts must be raised, and prices must be lowered; for not otherwise, it is maintained, can gold be brought back to the country. These are the essential "notes" of our present monetary system. In operation it withdraws the *media* of exchange when money is most demanded by the requirements of trade. And what is even more ruinous, it is based upon the theory that all goods must be lessened in price, in order that the foreign trader may be induced to exchange his gold for cheap commodities. Now, if we be right in holding that the natural resources of the country and the industrious habits of the people make for real wealth, surely the time has come when economists and merchants must perceive, both that it is a fiction to speak of the country's prosperity as due to Peel's legislative Acts, and that other agencies than those in operation under the present system, ought to be adopted. The prerogative that belongs to the Crown ought to be exercised by responsible ministers. It belongs to the Government to fix a gold unit as a definite measure of value. This would avail for foreign business transactions. Such a gold unit is, indeed, a necessity. Its utility is beyond dispute. Foreign traders really take gold by weight. Every sovereign is guaranteed to be of a certain fineness and weight. So far as foreign traders are concerned, that which they have chiefly to consider is the amount of gold they receive. It matters little whether the gold be coined or not; nor have they any special interest in the money which the Government may declare to be legal tender. They have

nothing to do with our monetary internal arrangements. "The foreigner," says Canning, "knows nothing of the value of the currency of any country, except that a certain portion of that currency represents and will procure, in his own country, a certain quantity of precious metal." Such being the case, the Government, in addition to fixing a gold unit, ought also to issue a paper unit guaranteed either by a small reserve of gold, or by the country's credit. A reserve equal to the amount which the banks hold in proportion to their issues would be easily secured; or if objection were taken to that method, then, since other countries, having nothing of the resources of ours, borrow large sums on their own credit, much more might our Government issue notes on its own credit.

The paper unit ought to be of the nominal worth of one pound. The notes of the Scotch banks form a good model as to the issue of paper; for in Scotland notes are very largely used, and one pound notes most of all. They pass freely from hand to hand, and are as good as gold. The advantages of such an issue would be great. In the first instance, the Government would only be doing what it ought, and the people would have for that reason more confidence. Many of the unfair conditions under which trade is now carried on would be removed. Periods of inflation and depression would be fewer. The bankers' profits would be less. The people would enjoy a correspondingly greater benefit, and their social condition be greatly improved.

We must, therefore, repeat what the history of our subject makes quite manifest, that, so long as the banks have a right of issue, and thus practically usurp

the Crown's prerogative, the monetary affairs of the country will be largely in the hands of a few privileged persons; the benefits accruing from the use of issues of notes will go into the hands of these persons, and reformers in all departments of social work will labour in vain, or at least be hampered in their operations, since the real *origo mali* is unseen or untouched.

III

But the second question which at this stage we ought to try to answer is equally important. Should the Government fix the price of gold at £3, 17s. 10½d. per ounce, or at any other sum? We are aware it is held that gold has no fixed price.[1] That, however, is a mere statement without authority or proof; for if we turn to the Act 1816, we find that its terms mean either that gold is fixed in price, or nothing at all: "No person," so runs the Act, "shall by any means, device, shift, or contrivance whatever, receive or pay for any gold coin lawfully current within the United Kingdom of Great Britain and Ireland any more or less in value, benefit, profit, or advantage than the true lawful value which such gold doth or shall by its denomination import."[2] Thus, the gold coin has a fixed and definite price given to it. One hundred and twenty-three grains of gold always exchange for twenty shillings; and the ounce of gold is coined into £3, 17s. 10½d.

But why should gold be arbitrarily priced when in the open market it often rises beyond the pounds and

[1] *Vide* Mr. Edward Tuck's argument in *Nineteenth Century*, Feb. 1895.

[2] *Vide* Act 1816, Clause xiii.

shillings in terms of which its price is designated? "The Act," says Gilbart, one of the greatest authorities, "did not give satisfaction to the bank directors. They wished to be allowed to pay their notes in gold bullion *at the market price of the day.*"[1] That gold rises in this country is seen from higher discounts. More goods or service must then be given for the same sum of gold. That gold rises in other countries is seen by its exportation to them being a profitable investment to the exporter. In the former instance, the profit accruing from the indirect rise of gold goes into the coffers of mere money-dealers and bankers; and in the latter, into the pockets of foreign traders. To the extent that profit is made in either instance the people must suffer. Now, all such advantage is, as Ruskin teaches, and rightly too, gain unjustly gathered in. "Note," he says, "of exchange, there can be no profit in it. It is only in labour there can be profit—that is to say, a 'making in advance,' or 'making in favour of' (from *proficio*). In exchange there is only advantage, *i.e.* a bringing of advantage or power to the exchanging persons."[2] Advantage, therefore, cannot be reaped unless at the expense of producers of real wealth. But it is not merely that gold fixed in price lends itself to the advantage of money-dealers, for since it has a value of its own, it cannot be arbitrarily fixed in price without doing a great injustice to commerce. As a matter of fact, which can be easily tested, gold seldom stands at the price which the Act of Parliament has assigned to it. All who have long leases of land, or who have entered

[1] Vide *The History, Principles, and Practice of Banking*, by J. W. Gilbart. A. S. Michie's edition (1892), p. 59.

[2] Vide *Unto This Last*, p. 129.

into contracts that are long-standing, know from a bitter experience that the actual price of gold is constantly changing. Often the farmer has to part with a third more of his produce before he can obtain gold to pay his landlord; and in the case of long-standing contracts, great injustice is frequently inflicted on account of the varying price of gold in the open market.

The Government ought, therefore, to be content with coining gold pieces of a guaranteed weight and fineness without affixing a price to them. Gold in bullion might then, if its holder desired coins, be turned into such guaranteed pieces. Articles of commerce would be exchanged readily enough for them. If, at any time, more of these articles required to be given in exchange for coins, trade would not suffer to the same extent as at present, nor would temptation be placed before foreign traders to export the gold, since they would be obliged to exchange more of their commodities before they could obtain the "precious metal." In thus arguing, it is assumed, as indeed we have assumed all throughout, that paper money, guaranteed by a reserve of gold or by the country's credit, would be in circulation, and serve all the ends of home trade. This paper would always represent a certain value, and however much the gold pieces, no longer fixed in price, might rise or fall relatively to other articles, the conditions would be present under which remunerative wages could be paid for labour, and many of the evils of the social problem be lessened. But in contending that gold should not be fixed in price, we are not limited to these economic arguments, for two historical illustrations may be cited in support of our contention. The first of these is found in connection with the Copper

Coinage Act of 1798. It was then enacted that a pound of copper be coined into sixteen pennies. At that period, however, the Mint and market price of copper tallied; and so long as the ounce of copper could be bought for sixteenpence, all went well; but when its market price rose to twentypence, those who required copper for mechanical purposes secured the pennies of the Mint and melted them; and this to the discomfiture of economists, who then maintained that the Mint and market price of metals used as coins could be retained at par. Silver supplies the second illustration: when the Act which regulates its coinage was passed, the market price of silver and its Mint price were about equal; but from a variety of causes, silver has declined in price from five shillings and twopence to as low as one shilling and tenpence per ounce. Silver is, however, still coined as if it stood at its original market price; and in this instance the advantage is wholly on the side of the Mint.

Now, these examples might at least have suggested a doubt as to whether gold can be fixed in price. To assign to gold coins an unchanging price is surely an arbitrary act; and, like all arbitrary acts, whether in the material or moral world, brings its own Nemesis, that "Daughter of Night" who inflicts her severest punishments upon the unjust and selfish. Different views, we admit, may be entertained as to the value of this or that remedial measure, but since Justice weighs men's actions in an equal balance, the upholders of a system which contradicts fundamental economic laws, permits mere money-dealers to amass enormous riches, and inflicts sufferings upon all toilers, cannot escape retribution. Even now retribution is being meted out

in part, for what is the social unrest, with its widespread discontent, but the judgments of Justice articulating themselves? In all departments of labour and thought a deep sense of righteousness is penetrating men's minds; and everywhere there are signs of an intense desire to see Justice triumphant. Meanwhile, writers like Bagehot being witnesses, the country staggers under the weight which the present monetary system imposes upon it; and the thoughtful bystander trembles for its fate. Some, it is true, profess to find security in the circumstance that the system is old and has withstood many adverse influences; but over and against such assumed security, it is a notable fact that not a single writer of eminence entirely defends the present system. It holds together, and it is hoped that it will hold together, for many years to come. That is about all that can be said. But when, for a moment, we consider the times and conditions under which it was established, wonder need not be expressed at the insecure foundation upon which it rests. The system was formulated at a period when Economics was in its infancy, and when political power was in the hands of the few. It must, then, be surprising if, when, with the lapse of time and patient research, all other sciences have made vast strides forward by improving their methods and producing reliable results, the science of Economics has gathered no laurels, recorded no triumphs, and has nothing to say but that the present monetary system is all that can be desired! But such a statement cannot be made. Even the extremest doctrinaire economist would hesitate to commit himself to the confession that Economics has made no advance; but if it has, then, surely, changes may be

safely made upon the present monetary system. The economists and politicians who elaborated it had nothing of the wider outlook which belongs to their successors. Many of them were frank enough to say the privileged few had rights which could not be extended to the toiling millions; and, therefore, under such unfavourable conditions it is only reasonable to assume that the system was all that could have been expected at the beginning of the present century; but now, with a clearer outlook and wider horizon, it may with equal justice be held that the last results of economic studies ought to be applied to monetary reforms; and if this be attempted, the first change that should be made is that of the Government, in name and on behalf of the people, resuming the exercise of the ancient prerogative of issuing its own notes. In exchange for loans of money, the interest and capital of which were well guaranteed by Government credit, William III. parted with the Crown's right to issue its own money. Ever since the Bank of England has exercised this right, the money of the country has to a large extent been under its control. Banks of issue cannot be set up at the will of any set of men. It is a monopoly. The Government protects those who enjoy it; and they use their privilege to their own advantage. This monopoly ought, therefore, to cease, and the Government, on behalf of the people, ought to reap all the advantages which the issue of notes secures.

IV

We are now in a position for considering the great legislative measure which has done so much to

stereotype the monetary system under which commerce is now carried on. The Bank Charter Act was introduced into the House of Commons by Sir Robert Peel on May 6, 1844. The occasion of its introduction was a widespread feeling that notes were being issued in excess. Bankers acting under legislative enactments were at liberty to issue notes to any extent, provided they could pay them in gold on demand. Many took advantage of the right given to them, and issued notes extensively. Loud complaints were heard on all sides. Panics were attributed to the action of bankers. It was maintained that they had produced "a redundant currency." The answer returned to all these complaints was that there could not be an excessive issue of paper money so long as it was convertible into gold. Mr. Clare, commenting upon the state of things then obtaining, says: "It was upon the assumption entertained by business men of great experience that excessive issues of bank notes were the main cause of the continually recurring panics, that the provisions of the Bank Act of 1844 were made law."[1]

This was made the occasion of the drastic monetary changes; but the real cause, as distinguished from the occasion, must be sought for elsewhere; and whenever we examine the utterances and conduct of men like Sir Robert Peel and Lord Overstone, who were at that time regarded as the first authorities, the former as a statesman and the latter as a financial expert, we discover that the changes were due to political, social, and monetary causes.

First, the political element entered. The Whigs had been driven from office because they failed to

[1] Vide *Money Market Primer*, p. 13.

raise the revenue of the country. The political unrest of the time expressed itself in a change of Government. It was held by many that with new ministers in power, a remedy would be discovered for the political evils of the day. It was, therefore, firmly believed that somehow or other prosperity would return with their accession to office. This indefinite conviction has often accounted for one political party being obliged to give place to another. It certainly operated with powerful effect when Sir Robert Peel was called to govern the country during the monetary crisis of 1839–44. He was returned to deal with a politico-financial question; and the answer which he gave to all who clamoured for a remedy was his well-known Bank Charter Act.

Secondly, the cause was also social. Suffering prevailed more or less among all classes. The financial straits of many banking houses, and the bankruptcy of many business establishments, led to low wages, distress, and social discontent. Landed interests were adversely affected. Annuitants and all engaged in the public service were threatened with losses. Now, if the strong political bias of Sir Robert Peel and his adherents be taken into account, it will be seen how his financial measures were conceived and carried out in the interests of the richer section of the community. The great mass of the people had not yet learned to exercise rightly and wisely the political power with which the Reform Bill of 1832 had partially invested them. They could not, therefore, make their political influence tell. That they suffered greatly was on all sides acknowledged, but the social distress had not yet driven them to extreme measures. Besides, they could not under-

stand the economic principles in operation. They were not, indeed, sufficiently educated to know what was economically right or wrong. That happened, therefore, which has often since taken place. Political bias largely determined the legislation of the day. It was manifestly in the interests of the rich. The legislators of the day, who belonged exclusively to the moneyed class, gave a willing support to Sir Robert Peel's measures. These might operate against the welfare of the working class, but that was not held to be a sufficient reason for resisting them. The wealthy would reap large benefits. All having fixed incomes would be in a better and safer condition. The rich would become richer, and the poor poorer. These may seem strong statements and grave charges to make. They are, however, only too well supported by painful records. The person, indeed, must be politically blind who does not recognise that the legislation effected by the representatives of wealth has been largely in their own interests. That is historically true. All classes of writers have been obliged to acknowledge it; and however much it may be regretted that altruism has not been a greater influence in our legislation, it is impossible to deny that the measures passed have only too often reflected the opinion and prejudices, and secured the interests, of the richer section of the people. If, then, we wish to understand the cause of the far-reaching monetary legislation of 1844–45, its social roots cannot be overlooked or disregarded.

But, *thirdly*, the monetary Acts of the time cannot be understood unless they be looked at from their purely monetary side. They were, indeed, great financial measures. They professed to deal specifi-

cally with money questions. To say, however, that there was a fear of an over-issue of notes, and that, therefore, the legislation proposed by Sir Robert Peel was adopted, is a very inadequate explanation. That alarm prevailed on this ground is admitted, but the determination to preserve gold at a fixed price, to govern monetary transactions by the state of foreign exchanges, and to limit the right of issue of notes until the monopoly would be in the possession of one bank only, had more to do with the passing of the Act than is generally recognised. The oft-repeated statements of Sir Robert Peel place these things beyond all dispute. Again and again he contended that the basis of a monetary system can only be laid in gold fixed in price by Act of Parliament, and in fiduciary notes being regulated as to their issues by the state of the foreign exchanges. "Prior to 1819," observes Professor Walker, "the Bank directors professed to be governed not by the state of the exchanges, or by the price of gold, but the demand for discount, having reference to the amount already advanced to the individual, to the solidity of the paper, and to the appearance of its being wanted for strictly commercial purposes. These," he adds, "were good and sufficient banking rules."[1] But Sir Robert Peel set himself to alter these conditions of trade. The failures of banking and business establishments called for an effective remedy. Two courses were open, either of which might have been followed. He might have inquired how far the failures were the result of the operations of the monetary legislation of 1819; but to have looked in that direction would have been to confess to the possibility of a mistake having

[1] *Money*, pp. 456, 457.

been made. That could not, therefore, be entertained; and in that direction Sir Robert Peel never once looked. Under the guidance of Lord Overstone, he had committed himself to a set of economic principles, and he was unable to put himself in the mental attitude in which he might, at least, have seen that there was some reason for questioning the operations of an Act that carried with it so many failures and much social distress.

The other course open to Sir Robert Peel and his supporters was that of following up and making more rigid the legislation of 1819. This course was adopted. The Mint price of gold was fixed irrespective of its market price. The state of foreign exchanges henceforth was made to regulate more stringently than ever the amount of notes in circulation. It availed little that the most experienced bankers and merchants, as well as many distinguished economists, protested against the policy adopted. The Act was passed by a triumphant majority. The course which commerce, so far as it is dependent upon monetary legislation, must follow, was defined. Sir Robert Peel's answer to those who returned him to power was given. Fluctuations were assumed to be guarded against. The landed interests, annuitants, and all in receipt of a fixed income were more than satisfied. Wages were tied down so far as an Act of Parliament could limit them. Restrictions were placed upon industry and the development of the country's natural resources. A policy which is at the present time defended by no writer of distinction, was then adopted by an accidental political majority.

In piloting his great measure through Parliament, Sir Robert Peel, always *facile princeps* as a debater,

with consummate ability reviewed the whole history of money; claimed to be legislating in the line of ancient custom, and called to his aid certain economic principles upon which, he maintained, his Bill was founded. At this somewhat distant date we can discount his persuasive eloquence, and even his strong personality. We can, therefore, examine with a measure of impartiality the appeal he made to history, and the value of his economic principles.

V

Before we attempt this task, we must, however, look at the salient features of his Bill, and see what it sanctioned.

1. The Act separated the Bank of England into two departments, and formed the Issue and Banking branches. For a long period previous to 1844, a fierce controversy raged between what were known as the advocates of the Banking and Currency principles. Mr. Tooke, the author of a famous work on Prices, in his earlier writings represented the former; and, along with many distinguished writers of the day, contended that if the Bank were undivided and under the same management, great advantages would accrue from such an arrangement. Lord Overstone advocated the latter, and held that the union of the two departments led to confusion and injury. Sir Robert Peel, always more or less under the influence of Lord Overstone, adopted the Currency principle. His measure, therefore, divided the Bank into two departments.

We do not attach much importance to the question of the separation of the Bank into two branches. It

was contended at the time, and is still maintained by many, that the division prevents one department coming to the aid of the other in times of financial distress; puts an artificial barrier in the way of the circulation of money; is useful only to money-dealers; and leads to the creation of panics. We do not attempt a pronouncement upon these disputed questions; but it is open to us to point out that if, as alleged, the Issue Department is a mere automaton and a part of the State, then it ought to be all the easier for the Government to exercise the prerogative of the Crown, and issue its own notes apart from the Bank.

2. The Acts of 1844–45 gave the right of issuing notes without gold to a number of banks. The Bank of England was permitted to issue fourteen millions of fiduciary notes; the English Private and Joint Stock banks, £8,417,721; the banks in Scotland, £3,087,209; and the banks in Ireland, £6,354,494. The total issues for the United Kingdom thus amounted to the large sum of £31,859,424. These notes rested upon securities. They had not a single ounce of gold behind them; and this in a system which professed, and still professes, to have a metallic basis!

The principles upon which the Government proceeded in conferring these monopolies cannot be defended. The privilege was granted to the Bank of England partly on the ground that it was already entitled to issue notes, and partly because the State was its debtor. The country banks were invested with the same extraordinary power because they also already had leave by Act of Parliament to issue notes. The method adopted by Sir Robert Peel in

confirming this monopoly to these banks was that of calling for a return showing the average of notes issued during a period of four weeks after the 10th of October 1843. This average was taken as the maximum of notes which the banks were to be permitted to issue. Sir Robert Peel, according to Professor Thorold Rogers, "took no steps to secure the evidence of their solvency, insisted on no independent audit of their assets and liabilities. The fact is," continues Rogers, "the country bankers were the social and political despots of the small boroughs, and in Peel's day these small boroughs were the supports of his party. To have affronted the country bankers, to have exacted pledges of integrity from them, would have been to imperil the maintenance of Conservative principles among those who aided the party at Westminster."[1] Thus, political party considerations influenced the great monetary measure which is held to be the bulwark and defence of the nation's prosperity. The country had been profoundly stirred by the crusade in favour of Free Trade; ten years had elapsed since the Reform Bill became law; but why was the principle of Free Trade not applied to the bankers' operations? The bankers, to whom was confirmed a great monopoly, held, it is true, securities against their issue of fiduciary notes. Many others then held, and at the present time hold, securities as good as those in the possession of bankers. To allow bankers to issue notes on these securities, and to refuse to others the same privilege, is a travesty of Free Trade. This, however, was, and is still, one of the main features of the monetary reform which so many praise in extravagant

[1] Vide *Economic Interpretation of History*, vol. i. p. 225.

terms. "If some citizens," asks A. B. Westrup, "can get money issued on collateral, why may not all citizens have the same privilege? If paper manufacturers and printers can furnish money for a certain class of security-holders, why can they not furnish money for all security-holders? If they can, why is it prohibited? If they can not, why *can* they not? Can private property be good collateral to loan on and yet be poor collateral to issue on? If a certain kind of collateral, differing in quantity as it differs in kind, is good security for a £1 note, why should not a thousand or a million times that security be a good basis for the issue of a thousand or a million pounds in currency?" The answers which are returned to these questions show what a great injustice was done to the whole people when a privileged few had their monopoly confirmed by the Acts of 1844.

But in addition to the issue of fiduciary notes, it was allowed to the Bank of England, the Scotch and Irish banks, to issue notes for bullion held by them; other individuals or corporations might hold gold, but they were expressly forbidden to issue notes. The monopoly could only be entrusted to bankers. The argument by which such procedure was supported was twofold. The Government owed a large sum of money to the Bank of England; and it, along with other banks, had for a long time enjoyed the privilege of issuing notes. What weight may be attached to these arguments it is difficult to say. Many must think them valid enough, otherwise a demand would have been made long ago for the repeal of an Act which confers such monopolies. In the opinion of competent judges, however, these arguments will not stand a moment's examination; for manifestly, if the

Government's indebtedness to the Bank of England be a good reason for conferring upon that Corporation the right of issuing notes, then all who have lent money to the Government might with equal justice claim the same privilege. It ought to be given to all creditors, or allowed to none. One creditor has as good a claim as another. The conferring of a privilege upon one set of men, to the exclusion of all others, is, therefore, not only against the spirit of Free Trade, but is also an act of great injustice. The Government's debt to the Bank of England might have been added to the National Debt, like so many other obligations. That would have been fair; but to make such a debt the basis of a monopoly cannot be justified. Nor can any more valid reason be adduced in favour of continuing the right of issuing notes from the circumstance that such a privilege is of long standing. Lapse of time cannot make a thing right which is essentially unjust. If on the ground that any monopoly has been enjoyed for many years, it cannot be touched, then an end would soon come to all efforts which have for their object legitimate reforms; but an argument like that cannot stand; and we are forced to conclude that the privilege was continued to the country bankers for no other or better reason than that which Professor Thorold Rogers has given, when he says that they were the main supports of the Conservatives, and that they received their monopoly on the understanding that they would continue to support Sir Robert Peel. The history of monopolies, always interesting and instructive reading, contains nothing more unjust and indefensible than this exclusive privilege. The wonder only is that political and

social reformers have not assailed it long ago. Here, if anywhere, there is an ample field for such workers. The directors of banks of issue possess a great and enriching privilege. They practically control the fiduciary money of the country. To the merest tyro in finance it must appear most unjust that a body of men who do little more than watch and manipulate the money-market, should be able to draw into their coffers large sums of money, which they designate profit. Gains so great as they gather in can only be secured at the expense of merchants and workmen; and they are only possible because the fiduciary notes are in their hands. Every tradesman is more or less at their mercy. They can lend money; they can give their notes, but not gold, for they have not gold enough for the enormous credit which rests upon gold; and when it suits their ulterior purposes, they can, and do, call in their notes again. They have many opportunities of securing advantage in Ruskin's sense of that term; and are never slow to seize them, with the result that the trader is suddenly placed in a position of great danger; for he is obliged to pay "calls" that are made upon him, whether it suits his business or not. Hence the many failures, times of depression, and social distress. Were, therefore, reformers to turn their attention to this long-forgotten but fruitful field, they would find abundant reward for their labours. Nowhere else is there a louder call for reform; and until radical changes are effected in this department of the nation's affairs, it is vain to hope for the fair conditions which, under a right social state, will be realised.

3. The Act provided that no new banks of issue could be established. The effect of this prohibition

was twofold. In the *first* place, the monopoly which the banks of issue enjoyed was confirmed in their hands. It could not be given to or shared in by others. *Secondly*, the manifest design of this limitation of privilege was to lead to one bank of issue only. In this, however, the authors of the Act were disappointed; and those who are enamoured of the financial measure of Sir Robert Peel, still experience disappointment in this respect. A few banks of issue have failed; but the great majority stand. The last thing, indeed, which directors of such banks think of is, closing their doors. They must be in sore straits before entertaining failure, for they know the extent and value of the monopoly they possess, and are unwilling to surrender it. No stronger evidence can therefore be found of the high estimate which directors of banks of issue put on their privilege than their extreme unwillingness to close their doors, and no other proof is required that they enjoy a great monopoly, than this natural reluctance to forego it.

4. The Act fixed the price of gold. We have already shown that when Parliament interfered with the operations of natural laws in arbitrarily tying down the price of gold, it took a step of which the most experienced financial experts disapproved; and that the effects of such legislation have been the hampering of trade, and the enriching of a few money-dealers. We do not, therefore, require to discuss the question again. Enough has been stated to show on what insecure and economically unsafe bases this part of the Act rests.

5. In the event of any bank of issue stopping payment, provision was made for two-thirds of its

issue reverting to the Bank of England, under an order of the Privy Council. The Bank has profited by such failures. Its issue has been increased to the amount of £2,450,000; but as proving that even in the minds of the authors of the Act there was something radically unfair in the arrangements, they made the Act provide that while all the gains from issues of notes, up to fourteen millions, made by the Bank of England, go to the Bank, profits on issues beyond the fourteen millions belong to the Government, and therefore to the people.

6. For notes issued beyond the amount sanctioned by the Act, banks of issue must hold gold. The scarcity of gold, therefore, at any time, limits such issues; but if plentiful, then more notes may be put into circulation. It is, however, generally recognised that the output of gold from the mines falls far short of the requirements of commerce. Even were it all used as *media* of exchange, the supply would be inadequate, but a great quantity is used as ornaments and for the fine arts. Gold is indeed one of the scarcest of articles. The amount which bankers hold is very limited. Witness the enormous credit resting upon a small amount of gold. The number of notes, then, that can be issued against gold can never be great, certainly can never be equal to the needs of trade.

The Act, however, as we have already seen, makes provision for the issue of fiduciary notes; but look at the anomaly. The number of such notes issued in 1844–45, based on the needs or wants of that period, is held to be sufficient for the necessities of all future times. The notes cannot be increased; they may be diminished; they actually

are lessened by the failure of banks of issue. Either the amount of fiduciary money issued in 1844-45 was too great, or is now too small. That it was not too great at the former period, is proven by the circumstance that soon after the passing of the great Monetary Act, its suspension became necessary, and the stress of the banking department of the Bank of England obliged the Government to allow an extra issue of notes. But if the fiduciary money was inadequate, and could not meet all the demands of commerce fifty years ago, how much less is it able to supply sufficient *media* for the needs of trade at the present time? An attempt need only be made to give a satisfactory answer to this question, to perceive how imperfectly provision is made by the monetary legislation of 1844 for the enormous increase in population and production; and how in the absence of such provision social distress must be entailed. Economists are, however, rapidly coming to acknowledge that where real wealth exists, there ought to be adequate *media* of exchange for such wealth, otherwise injustice is sure to be done to merchants and workers alike. Now, it is on all sides recognised that the country is far wealthier at the present time than it was fifty years ago. Industries are more numerous, commodities are multiplied, riches are increased. But while this progress is so marked, the signs of wealth, that by means of which commodities are exchanged, gold money, and notes have not increased in anything like the same proportion. The limitation of *media* of exchange, therefore, means restrictions upon trade, and ultimately social distress among the people. "The task," says Mr. Thomas M'Kay,

"before this and the next generation, must be the clear establishment of the truth that a largely increased production of wealth, and its equitable distribution among all classes of the population, can be obtained only by the development of the facility and the multiplicity of exchanges. This rule is applicable," he adds, "to all forms of credit, whether they be labour, or credits, or material commodities."[1] According to the same authority, "the freedom of free exchanges is the true solvent of social congestion and incapacity."[2]

VI

It is still a disputed question whether the solution offered by the accomplished authors of *A Policy of Free Exchange* can be made workable. There is no doubt that they and others have abundant reason for being dissatisfied with the present system. Indeed, among the most thoughtful economists and social workers, there is a consensus of opinion that the industry of the people and the prosperity of the country cannot be tied to gold; and that a medium of exchange ought to be adopted, which would permit "the precious metals," like all commodities, to rise and fall in price. The effort to discover a standard for deferred payments is a witness to this widely spreading conviction, though the advocates of such a change do not go for anything very radical. We find, however, others more daring. Deeply affected with the sufferings of the people, and the perplexing elements in the social problem, they propose a standard of value "determined according to the

[1] Vide *A Policy of Free Exchange*, Preface.

[2] *Ibid.* p. 240.

local price of provisions by a statistical commission."[1] All socialists unite in deploring the evils resulting from the present system; and the more advanced in describing the ideal state after which they strive, contend that gold will be relegated to its natural place, and that paper will be a sufficient medium and convenient sign of wealth. We refer to this widespread conviction, and mention these proposals as proofs that drastic changes are demanded. How any scheme will work out is for its advocates to show. Real reforms must come slowly; but the least that can be made is that of the Government, which has already authorised bankers to issue symbolic money, issuing its own notes in some just proportion to the needs of trade. Nothing less than this will satisfy the demands that are being made. The issue of the country's money cannot be allowed to remain in the hands of a few privileged bankers. They have reaped and enjoyed an enormous benefit by their monopoly too long. The time has come when the distressful social condition of the people ought to be regarded as more than a justification for Parliament amending the Acts of 1844–45, and seeing that the issue of notes be equal to the ever-increasing production and needs of the people.

[1] Jules Guesde made such a proposal. *Vide* his "Economic Programme" in the *Journal des Economistes*, March 1883.

CHAPTER XIII

MONETARY LEGISLATION AND ITS FURTHER BEARINGS ON COMMERCE

I

WE have pointed out the essential features of Sir Robert Peel's financial measure, and now proceed to examine the grounds on which he attempted to justify his legislation. He made two distinct claims —*first*, that he proceeded along the line of historical precedents, and *secondly*, that his measure was based upon sound economic principles.

It would be difficult in the extreme to discover an historical precedent for the division of the Bank into two Departments. The establishment of these Departments was the outcome of opinions strongly held by the advocates of the Currency Principle. The defenders of the Banking Principle condemned the division. Whatever may be said in favour of the change, it cannot be successfully maintained that the experiment had ever been tried on any previous occasion. Lord Overstone was the real author of the division; and he was successful in persuading Sir Robert Peel to adopt it. As to the right of issuing notes, it is acknowledged that the Bank of England from the date of its origin exercised the privilege of issuing its own notes both against bullion and the

debt which the Government owed to it. At a much later period, as we have already pointed out, country banks also possessed the right of issuing notes; but it was an entirely new departure when Sir Robert Peel arbitrarily fixed the amount of fiduciary notes which the banks were allowed to issue. There was no precedent, historical or otherwise, for the arbitrary limitation. A privilege was confirmed to a few which, all advocates of Free Trade at least must hold, should have been given to all who cared to exercise the right, or it should have been retained in the hands of the Government for behoof of the people.

When historical evidence is asked for the fixing of the price of gold, it is equally difficult to find proof. It is true that in 1816 gold was declared to be the legal tender of the country, and was then fixed in price; but if the history of money makes anything clear, or puts anything beyond question, it is that the pound sometimes contained more, sometimes fewer grains of gold. The contents of the pound, indeed, changed twenty-two times from the reign of William I. till that of George III.[1] Sir Robert Peel, however, declared that his measure rested "on the assumption that according to practice, according to law, according to the ancient monetary policy of their country, the meaning of a pound is neither more nor less than a certain quantity of gold, with a mark upon it to determine its weight and fineness"; and from this starting-point he went on to affirm that the pound had maintained its invariability from the time of Elizabeth till the present time. Now, on whatever grounds the pound might be fixed in price, it cannot be on historical evidence as to its invariability; for though

[1] Vide *Breach of Privilege*, by John Ball, p. 38.

the variation was not so great after as before the time of Elizabeth's reign, there was still the difference between seven pennyweights and six and a half grains, and five pennyweights and three grains; the former being the contents of the pound in 1601, and the latter, when Sir Robert Peel's Act was passed. The historical argument must, therefore, be weighed in the light of these facts.

We have already discussed at some length the manifest design of the Act in leading to one bank of issue, and the inadequate provision of *media* of exchange that is made for the development of production and the needs of commerce. It is enough here to say that there could be no historical precedents for either of these two things. They were both dictated by political considerations, and were evidently intended to confirm monopolies. That Sir Robert Peel and other politicians of the day had precedents for conferring monopolies goes without saying; for the history of the social condition of the people supplies the most startling proof of privileges conferred on the basest pretences. The people, having few political rights, were at the mercy of their rulers, who used their positions for their own advantage; but however many monopolies existed, those conferred in 1844–45 were only new in the sense that the spirit which prompted the granting of other privileges was present then, and operated powerfully in all directions save in those where the interests and well-being of the great mass of the people lay.

II

The second claim made on behalf of the monetary legislation of 1844–45 was that it rested on sound

economic principles. Let us examine this claim. One of the main objects at which Sir Robert Peel aimed was the convertibility of bank notes into gold on demand. The issue of notes to be thus convertible included all issued against gold held by bankers *plus* fiduciary notes, amounting on the passing of the Acts to £31,859,424. The problem, therefore, which Sir Robert Peel set before himself and the country was of the greatest magnitude and of the gravest kind. Through sheer force of will he succeeded in carrying his measure. How it works when a crisis occurs is well known. Already on three occasions the Act has been suspended, and that, too, in times of peace; but whether it would stand the strain of a European war, in which we might happen to be engaged, no one can say. The times hitherto have been largely favourable to its operations. If, however, a war broke out, it would be severely tested; for then there would be an enormous drain of gold; and gold being taken out of the country, credit would be shaken, and indirectly commerce would suffer. It is, we admit, as unwise as it is unsafe to indulge in predictions as to the future, when war will again put our monetary legislation to the severest test; but these two things may be said—*first*, that it was by the aid of paper money that the war with Napoleon was carried to a successful termination; and *secondly*, that if the Act has been suspended in times of peace, much more would Parliament require to interpose its authority, and suspend the operation of the Act in the event of a great war taking place. It is quite true that, without inquiring as to the basis upon which notes rest, whether gold, or Government or other securities, they pass in times of peace from hand to

hand, and are convertible ; but whatever else may be claimed for our monetary legislation, it cannot be pretended that the enormous issue of notes, fiduciary and those resting on bullion, could, in the event of a national crisis, be convertible on demand. There is not even at the present moment gold enough for such a purpose ; for if war necessitated the exportation of bullion to any extent, much less could the notes be convertible into gold.

Those who contend that the science of Economics demands the convertibility of bank notes are precluded from advocating the issuing of any notes other than such as have gold behind them ; for the only safe guarantee that gold will be paid is when it is in the hands of bankers. Sir Robert Peel, however, claimed that a certain amount of fiduciary notes could be issued, and, further, that this measure secured the payment of gold on the presentation of bank notes. It is not, we hold, inconsistent with sound economic principles to authorise the issue of such bank notes ; for it is the province of Economics to discover adequate *media* of exchange that commerce may be developed, and that the fruits of labour may be equitably distributed. Economics is not tied down to gold ; it has to do with real wealth ; it recognises any convenient medium ; but without question it is the business of economists, when they apply their science, to see if a substitute be made for gold *media* of exchange, that the extent to which that substitute is used be clearly defined, and that the amount of representative money be regulated by a right and easily defensible principle. It is no injustice to Sir Robert Peel to say that he had no such principle present to his mind when he advocated

and carried his great measure. Political considerations had to be taken into account. Partisan politicians had to be satisfied. Privileges had to be given for political support. Monopolies had to be safeguarded. Search, indeed, is made in vain for an economic principle that would justify (*a*) the amount of fiduciary notes issued; (*b*) the extraordinary power put into the hands of bankers; and (*c*) the profits which they are allowed to gather at the expense of producers of real wealth, masters and workers alike.

(*a*) The amount of notes was determined by haphazard. An issue was permitted to the Bank of England of eleven millions. On what grounds? The Government had borrowed from the Bank eleven millions. Fiduciary notes were to be allowed as against this sum; but that did not satisfy the Bank stock-holders, whose political influence could not be disregarded with safety. Notes equal to three millions of "other securities" were also issued. In the case of the country banks, the average number of notes in circulation during a period arbitrarily selected was taken as the basis of the amount they were permitted to issue. Anything more haphazard than such procedure can scarcely be imagined. There was not in the method even the pretence of an economic principle. No respect was had to the possible development of commerce. The conditions under which trade was then conducted were fixed as the conditions under which in all future time it would be carried on. The amount of representative money was thus arbitrarily determined; and having set Economics at defiance, it was assumed the notes would always be convertible into gold!

(*b*) The money created by Act of Parliament did not, and does not now, have gold behind it. This money is put into the hands of the directors of the Bank of England and other banks of issue. They have the entire control of this money; and can, and do, use it at their own discretion. They are, therefore, endowed with extraordinary power, which cannot be justified by any economic principle. It is, we know, contended that the issue of such money is safer in the hands of a privileged corporation than in those of the Government. The presumption is made that Parliament might misuse this power if it were retained in the hands of responsible Ministers of the Crown; but how a body of men who are without responsibility to the people can exercise more safely the issue of money than the Government has never yet been shown; nor is it possible to prove the assumption. The Ministers of the Crown are men of honour; and they could, and indeed ought to, have this money under their control. It has, however, been gifted to bankers, who put more or less of it into circulation according as more or less profit is made by means of it. The maximum amount of notes which they can issue is determined by statute; and can only be increased when at least three Ministers of the Crown authorise the suspension of the Act, and give to the Bank of England power to issue more notes. Within these limits the banks of issue have absolute discretion as to what amount of notes may be put into circulation. Having possession of notes issued against gold, and also of fiduciary notes, the occasions are rare when the banks issue all their notes. There have, however, been occasions when they exhausted their supply;

and the Bank of England has been empowered to issue notes beyond the fourteen millions authorised by the Act. In determining to what extent they may with profit to their shareholders lend their notes, they are allowed to be the judges. The only restraint upon their action is that they must take note of the state of foreign exchanges. How far that goes to regulate the notes in circulation we shall see in a little; meanwhile, we observe that the money ostensibly created for the benefit of traders, and, therefore, for the good of the country, is in their hands, and is often withheld from commerce for no other reason than that it will not yield sufficient profit.

(*c*) But who reaps the profit accruing from the issue of notes authorised by Act of Parliament? It does not go into the hands of the people; for provision is only made that the public shall receive the profit derived from any issues beyond fourteen millions. All other profits go to the banks of issue. It has often been a matter of complaint by banks that have not a right of issue, that they are excluded from sharing in these gains. That is, however, a matter which only concerns them; but it is a still more serious complaint that the people do not reap, as they ought, the benefits of money created by the Crown and Parliament. It is, we are aware, maintained that the profits derived by the banks of issue from their fiduciary notes is not large; but whether large or small does not affect the justice of the people's claim. Besides, it is somewhat difficult to estimate the profits from fiduciary notes; for the rate of interest charged to traders for loans of money is, while always high, constantly varying; and therefore the profits from that source cannot readily be ascertained; but what-

ever it is, the people ought to receive the benefit. Bankers have too long enjoyed this privilege. Social reformers have too long neglected this field; but if traders really understood the powers with which bankers are invested, professedly in the interests of commerce, they would not rest satisfied with receiving loans of money at exorbitant rates of interest; and if the great mass of the people, who suffer indirectly but severely from the operations of money-dealers, perceived the injustice that is constantly being done to them, they would insist upon reforms in this important department of the nation's life.

III

Whatever interest may be taken in these practical questions by those who are most affected by them, it cannot be held that there is any guarantee of the convertibility of notes, the issue of which was determined by a haphazard process, chief regard being had to the confirming of a monopoly to a few privileged persons without respect to economic principles or the ultimate well-being of the people. The notes could not be realised in gold, for the good reason that gold does not exist in sufficient quantity for such a purpose. This, therefore, raises the question whether the convertibility of notes be a *conditio sine qua non* to trade. Business transactions are conducted on the assumption that notes can at any moment be converted into gold; but this is a simple assumption, and nothing more. How utterly baseless it is, every person acquainted with the enormous credit resting upon a small reserve of gold recognises. If the attempt were made to realise notes in gold, it would fail. But it is

said, "such an attempt will never be tried; people are content to carry on their business affairs without troubling themselves as to whether the signs of wealth which they hold could be converted into gold." No one, however, can regard that as a sufficient answer; the assumption ought to be carefully examined and tested; and if it were, it may be safely predicted that the haphazard method of determining the number of notes to be issued did not provide the conditions under which all bank notes could be converted into gold on demand. If the experience of the past proves anything at all, it is that the convertibility of notes into gold is not absolutely necessary. Traders can carry on extensive business operations without the use of either gold or bank notes. If they hold valuable stock, signs of such stock are easily found, and by means of them goods are exchanged. Credit, which rests chiefly on real wealth, *pecunia*, being good, gold is not demanded, or at least to a limited extent only; and what does that prove? Is it not, among other things, proof of this, that the convertibility of bank-notes is not absolutely necessary? It would certainly be unwise to permit an unlimited issue of notes; but the issue of them ought to bear some proportion to production and the needs of commerce. The issue also ought to be made by the State; or if it be an advantage to issue notes through bankers, the profits ought to go into the public Exchequer.

But we must examine another economic principle, upon which Sir Robert Peel professed to have acted. He maintained that the amount of notes put into circulation at any given time must be regulated by the state of foreign exchanges, and that the issue must be dependent upon the quantity of gold exported.

Lord Overstone, whose teachings Peel followed, had, in 1840, written, "the increase or diminution of gold in the hands of the Bank was to be taken as the only certain and safe test of the favourable or unfavourable state of the exchanges; consequently the amount of her paper issue was to vary with a direct reference to the fluctuations in the amount of bullion in the possession of the Bank."[1] This statement has the advantage of being quite explicit; but if it be held to enunciate a sound economic principle, then recourse should not have been had to the haphazard method adopted in determining the amount of notes which the banks of the United Kingdom were authorised to issue. The average number of notes which the state of the exchanges demand should have been approximately ascertained, and legislation should have proceeded on the principle of creating as much fiduciary money as might meet all possible variations caused by the importation or exportation of gold. Nor, again, if Lord Overstone's statement contains a defensible economic principle, should the arbitrary power of issuing notes have been put into the hands of the Bank directors. The amount of notes to be issued should have been determined by the state of the exchanges. Instead, however, of carrying out his proposals in this thorough manner, in obedience to what was held to be an economic principle, Sir Robert Peel created an arbitrary amount of fiduciary money. An issue of thirty-one and a half millions of notes was authorised. There was not an ounce of gold behind the issue. This amount, too, was fixed upon without respect to the possible growth of trade, or the needs of the people, or even the state of foreign exchanges.

[1] Vide *Remarks on the Management of the Circulation*, p. 21.

It was allowed to bankers to say how many of these notes might be put into circulation at any given time; and the theory of the state of the exchanges was to apply *after* the notes had been sent out. Whoever can perceive in this procedure either economic principle or consistency must be gifted with rare insight.

But apart from these strictures, did the Act so operate as to regulate the amount of notes in circulation by the state of the foreign exchanges? Two years had only elapsed when the economic principles and practical worth of the great monetary measure were severely tried and found wanting. In 1847 twenty millions of fiduciary notes were in the hands of the people. At that period the total amount of bullion was very low.[1] Now, therefore, came the opportunity of testing the operations of the Act. The bankers tried, but in vain, to obtain possession of the notes they had issued. Gold had been withdrawn by holders of cheques. These demanded payment in gold. The drain upon the Bank's reserve was alarmingly great. The object which the Act was assumed to secure, the regulation of the issue by the state of foreign exchanges, could not be accomplished. It was not, indeed, until cheques in some degree ceased to be presented, that the Bank exercised any appreciable control over the notes in circulation.

This drastic experience has often since been repeated; for cheques are always plentiful; the books of the Bank represent enormous obligations; it may at any time happen that they will be presented, and gold withdrawn; and therefore, as almost all writers admit, the Act signally failed in this important object.[2]

[1] *Vide* Seyd, *op. cit.* p. 128.

[2] *Vide* F. Walker, *op. cit.* p. 467.

It was claimed for the Act, by economists who defended Sir Robert Peel's legislation, that it limited the power of the directors of banks of issue, and prevented them from issuing their notes when a large issue might be profitable to them. The Act, however, tells little upon the power of bankers. Profit comes to them by an extra issue of notes, and still more by a sudden contraction of notes. But while they thus secure large profits, the operations of the Act hamper trade, make money scarce when most required, and lower wages. The banks of issue are at liberty to lend out their notes until the state of the exchanges is against the country, and then only are they obliged to put on such a rate of discount as actually prohibits trade. But long before the state of exchanges shows against the country, bankers may have lent their notes extensively, for they are always favourable to expansion, since that means a certain amount of profit. They insist, it is true, upon good securities; but traders are constantly requiring aid; and while, again, we must guard against the economic fallacy that money creates trade, it must also be recognised that trade calls for money to "lubricate its wheels"; that it makes for production, and therefore for prosperity. Hence, whenever the conditions are favourable, bankers lend freely; and it is a well-attested fact that the years when the greatest amount of notes is lent are synchronous with periods of the greatest commercial prosperity; but when the notes are withdrawn, a commercial crisis more or less severe follows. In either instance the power of bankers is little affected, and their profits are great. They gain advantage from the issue of notes. The years of pressure and crisis are also times of profit-making to

them. That the banks of issue lend freely in the hope of making gains is beyond dispute, for that, in common with all other bankers and money-dealers, they are tempted to do. When times of crisis come, it is maintained, by many who have made bankers' operations a life-study, that still greater profits are gathered. Seyd holds, for instance, that the Bank of England "had some interest in the very things which assisted in laying the foundation of the crisis of 1866."[1] The same charge has often since been made against banks of issue, and only with too good reason. But what of commerce while the banks thus reap profit? So long as money is lent on reasonable terms, trade has a fair chance; but want and suffering are experienced whenever a sudden contraction of notes takes place and a high rate of discount is imposed. Were the fiduciary money permitted to remain in the hands of the people, few of the evils, so greatly deprecated, would be experienced. These evils are largely created by the operations of the Act which obliges bankers to put on a high rate of discount and contract their issue. The law, indeed, operates with instant effect and disastrous results to commerce. Merchants are forced to make payments when it least suits them. Prices instantly fall. Goods at low and, also, unremunerative prices are exported. Suffering becomes the lot of the working classes, and the social problem at once attracts the attention of reformers, few of whom, however, perceive that the distant yet certain cause of the depression prevailing is largely due to the operations of the monetary legislation passed when the science of Economics was in its infancy, and political rights were withheld from many

[1] Vide *op. cit.* p. 51.

of the people since enfranchised, and which still continues to rule the commerce and to affect the well-being of the people.

That such results, deplored widely and on all sides, are largely produced by the monetary legislation under review is witnessed to by writers whose testimony will scarcely be questioned. "When the state of foreign exchanges is against us, the Bank," says Overstone, "has the power of protecting herself, but to do this she must produce on the money market a pressure ruinous for its suddenness and severity"; and he adds words which one who had so much to do with the passing of Peel's legislation might have hesitated to write: "*She must save herself by the destruction of all around her.*"[1] "There is," says Mr. Goschen in his *Foreign Exchanges*, "no corrective of a draw of gold, and all its attendant consequences, more powerful and effectual than a rapid advance in the rate of discount."[2] But this corrective, of which many speak so lightly, is applied at a terrible cost. Merchants can only be accommodated with money at a rate of interest that is prohibitive to commerce. Sufferings of the most drastic description are inflicted. Wages are reduced. Thousands willing to work are unable to find employment. Poverty prevails, and the social distress is rendered most acute.

IV

There are economists who dispute the statement that lack of money, produced either by a sudden contraction of notes, or the imposing of a high rate of

[1] Vide *Remarks on the Management of the Circulation*, p. 38.

[2] Vide p. 148.

discount, or, indeed, by any other cause, leads to these social evils. Wages, for instance, it is maintained, are not to any appreciable extent affected; for it is contended that defensive combinations and social progress keep up wages; and if wages be kept up, the evils complained of are held to be imaginary. On a recent occasion[1] the Bradford Chamber of Commerce, addressed first by Mr. Shaw-Lefevre as a monometallist, and next by Sir William Houldsworth as a bimetallist, was invited to consider the decline of prices. Both had a solution of the problem to offer. Both desiderated more money, but each suggested a different method by which it might be obtained. We are not concerned with the disputed questions of monometallism or bimetallism, but we refer to the utterances of these representative men, because they both discussed the question of wages, and the bearing of these on social welfare. Mr. Lefevre committed himself to the indefensible position that a large increase of commodities with a decrease of money, however that decrease be produced, does not reduce the price of the one in terms of that of the other; for that is what his argument amounts to when contending that the depreciation of prices is different from the appreciation of gold; and from this position he was led to argue that if gold had appreciated, wages would also have fallen with the price of commodities; but since, as he maintained, wages had not decreased, there was therefore no evidence of the appreciation of gold. To Mr. Lefevre's argument Sir William Houldsworth replied that gold had certainly appreciated, and that on the question of wages, before it can be held that they

[1] November 1894.

have not fallen, account must be taken of the large number of workmen unemployed.

However the controversy which these disputants conduct may go, it is at least evident both of them recognise that more money is the *desideratum* of the day if relief is to be given to the distress which so widely prevails. The former looks for a solution to "the restoration of international confidence," the latter to the adoption of bimetallism. Both admit that the scarcity of *media* of exchange is affecting commerce. If, then, such scarcity tells upon commerce, it must also affect the labourer's remuneration; and this admission is for our purpose enough, for it proves that one important element in the social problem of the day is the lack of sufficient *media* of exchange. Whatever else, then, may be claimed for the monetary legislation under which commerce is at present carried on, it cannot be held to be one of its qualities that it makes ample provision for the needs of commerce, or the wants of the people. Commerce may urgently require the use of money, but it is often withheld when most needed by traders. The foreign exchanges are assumed to govern the issues of notes. But according to Gilbart, "The fluctuations in the value of money produced by attempting to regulate the currency by the foreign exchanges are injurious to both London and country bankers." When times of distress come, the Bank of England "is unable to grant assistance to the commercial and manufacturing classes."[1]

This condition of things has, therefore, done more than any other single factor to produce fluctuations in the money market, failures in business, disturbance in

[1] Vide *op. cit.* p. 329.

trade, the fall of wages, want of employment, and the accentuation of social distress.

V

But it was, among other things, the claim of the authors of our monetary legislation that the economic principles embodied in this Act of Parliament would prevent the disturbances which were constantly occurring in the money market, and so hurtfully affecting commerce. Some of the advocates of the measure boasted that this end would be secured; others, less confident, went no further than fervently to hope it might be accomplished; but unfortunately for them, subsequent events proved the boast vain, and the hope delusive. Under the Act "there must be," says Gilbart, "a constant alternation from high prices to low prices, and again from low prices to high prices—from speculation to distress, and from distress to speculation."[1] And, again, he remarks, "There have been great fluctuations in the amount of the circulation, in the rate of interest, and in the prices of the public securities. There have been great speculations followed by great distress."[2]

The number of changes in the rate of interest has, indeed, gone on increasingly since 1844; and the consequent fluctuations are the constant alarm of all legitimate traders. The Act, so far from lessening them, has enabled money-dealers to produce fluctuations. To many of these, 'Change is nothing more than a gambling house. The reckless manner in which so-called fortunes are made and lost bear witness to the power with which they are invested.

[1] Vide *op. cit.* p. 327. [2] *Ibid.* p. 331.

To quote Gilbart again, "Only the man who watches the fluctuations succeeds; and he succeeds by speculating on the fall and rise of the money market."

We make boast of the great progress that has been made in recent times. We note the social evolution going on, and compliment ourselves upon the improved conditions of life. Far more people now live in comparative affluence than at any former period; but there is another side which no right-thinking man can contemplate and be satisfied; for if riches have increased, so also has poverty. There are still thousands of honest people who suffer from want. Their poverty, too, is more abject than it ever was before. Vice also finds a soil, prepared by poverty, for its baleful growth. Never, indeed, did the social problem present so perplexing a form as it does at the present hour. Many, touched by the clamant cry of the poor, cast about for a remedy. Now, we say it deliberately, that our monetary legislation has aided the speculator, has helped to put money into his hands, has also operated against legitimate commerce, and has, therefore, produced many of the conditions which make for poverty.

This legislation, enacted fifty years ago, and not materially altered since that date, deserves the most careful examination, and ought to be reviewed by social workers. In a review of its operations, it will readily enough be admitted that fluctuations are, as Professor Walker says, "inseparable from the course of commercial affairs, and that contingencies must be taken into account"; but it is quite another question, and the problem it contains assumes a moral aspect, when, under an Act of Parliament, banks of issue have the right to put their symbolic

notes into circulation, and thereby encourage commerce; and next, under the same Act, to call in these notes at a time when trade most requires them. What but perpetual disturbances can be expected? Panics have regularly occurred at intervals of ten years, ever since the passing of the Act. Thanks to the absence of a great war, which more than anything else tests a monetary system, these fluctuations have not produced a national disaster; but even in times of peace, which the country has so long enjoyed, the operations of the Act have led to its suspension on three different occasions; and the Act would certainly have been suspended at the time of the Baring failure, had not the Bank of England, under the guidance of Mr. Lidderdale, the Governor, combined with bankers and financiers throughout the country, and obtained the large sum of seven and a half millions to meet the immediate liabilities of the Barings.

It cannot, then, with any show of reason, be contended that fluctuations have been prevented by the Act, or that its operations have not had the most disastrous effects upon the commerce of the country. It was, however, the distinct and emphatic contention of Sir Robert Peel that fluctuations would be fewer than formerly. The first quarter of the century had been marked by great commercial calamities. The bullion principle laid down by Lord Liverpool in 1774, and acted upon by Sir Robert Peel in 1819, had encouraged fluctuations in the rate of interest, and had disconcerted the calculations of merchants. By his new Measure, Sir Robert Peel maintained, these variations would be obviated; but what led him to entertain such expectations it is difficult to say.

Subsequent events certainly belied all his anticipations. "For the first eleven years," Mr. R. Walker points out, "the changes in the rate of interest were twenty-eight; and in the second series of eleven years, one hundred and six."[1] These figures are decisive, and prove that the Act did not accomplish the object aimed at.

But if we examine the mercantile and social condition of the years subsequent to the passing of the measure designed to limit fluctuations, further evidence is seen of its failure, and that chiefly because it was not based on sound economic principles. The Income Tax, which Professor Thorold Rogers condemns so severely on account of its political origin,[2] had increased the revenue. Trade was in a comparatively flourishing condition. The rapid and enormous extension of the railways gave employment to capital and labour. Many, therefore, hailed the commercial activity of the day as proof of the wisdom of the great monetary measure that had been passed. But a rude awakening was in store for such persons. The crash came in 1847. Mercantile houses fell with alarming rapidity. Property worth millions was sold at a ruinous depreciation. The sufferings of the working classes were extreme. Money could not be obtained from the banks on anything like reasonable terms. The Bank of England rate of discount rose from $2\frac{1}{2}$ in 1844 to 8 per cent. in 1847.[3] Money-dealers exacted as high as 50 per cent. from merchants who stood in urgent need of relief. Three

[1] Vide *The Panic of* 1866, p. 12.

[2] Vide *The Industrial and Commercial History of England*, vol. ii. p. 448.

[3] *Vide* Seyd's Tables, *op. cit.* pp. 123–128.

per cent. Consols reached the low limit of 79¼; and even Exchequer bills were discounted at a sum which spelt national loss.

If Sir Robert Peel had been a less powerful Minister, if the political situation had been less favourable to him, his measure would not have been passed. It became law because of the personal influence of its author. As a working principle it failed conspicuously soon after coming into operation. How it has since that time operated, and in what estimate it is held, may be gathered from the frequent protests of Chambers of Commerce; from the gradual expansion at one time and sudden contraction of bank notes at another; and from the ruin which comes to many traders, and the sufferings of the working classes.

The utmost, indeed, that can be said for the Act by those who see in it sound economic principles is that its influence is felt "not in crises, but in times of prosperity, when the seeds of evil are being sown in a soil apt to receive and ferment them";[1] and that it "restrains issues during times when speculation is insidiously preparing future convulsions of trade and productive industry."[2] But unfortunately the evil is done long before the so-called restrictive side of the Act comes into operation. Besides, the value of a monetary system ought to consist in its availing for all times, prosperous and otherwise. It is not when all is going well that its practical worth is tested; but even if such times be taken, the Act provides material for a crisis which it is powerless to avert, unless at the cost of ruining many mercantile houses, and producing a vast amount

[1] *Vide* F. Walker, *op. cit.* p. 470. [2] *Ibid.* p. 472.

of social distress. Banks of issue are authorised to send out their notes. The temptation to an extra issue, on good security, is very great; bankers naturally yield to the temptation. They know well that in the longrun they seldom suffer. Traders must realise their property to meet their obligations to the banks. Money must be found at any cost; but all experience shows that it is most difficult to find money when issues are suddenly contracted, and a high rate of discount is imposed; for then property is sold at a great loss, commerce suffers, social distress prevails, and, to quote the words of Karl Marx, there grows "a mass of misery, oppression, slavery, degradation, and exploitation."[1] The few are benefited at the expense of the many.

VI

It is argued that the economic principles of our monetary legislation are not responsible for the sufferings that exist. The advocates of the exploded theory of the balance of trade maintain that the gold which has been exported must be brought back again; that there is no other way by which this can be done than by making all commodities cheap, and lowering wages; and that if distress come in the train of these operations, it is the outcome of a natural law. The sufferings may be deplored, but cannot be avoided. Natural law, forsooth! Can any law be termed natural which arbitrarily imposes sufferings? Rather it is the result of a false conception of Economics. If there be one thing more than another which the younger school of economists now recog-

[1] Vide *Capital*, vol. ii. 788.

nise, it is, *first*, that the French "Economists" long ago overthrew the doctrine of the balance of trade; and, *secondly*, that the old theory "only money is wealth" which led to the passing of laws intended "to encourage the importation of gold, and to prohibit its exportation," lay at the root of the monetary legislation that Sir Robert Peel passed, and gave to gold a place which ought never to have been assigned to it in the science of Economics. The result, therefore, is that all articles of merchandise are made dependent upon it. Wealth, including all products and possessions that are exchangeable, is narrowed down to gold. Hence the eager desire to possess it. The cruellest deeds have been perpetrated, labour has been uselessly expended, and lands laid waste for the sake of obtaining it. Gold, the most unprofitable of all articles that "make for life," the one end, as Ruskin rightly teaches, to which all things should be made subservient, is greatly over-valued, and is made to play a part in the transference of commodities from one person to another, which entail sufferings that should never be endured. As a measure of value gold serves a good purpose, but when it is made the final standard, the evils to which its use leads cannot be averted.

Economists, however, are beginning to perceive that wealth is more than gold; that real wealth makes for life; that wealth may pass from one person to another by *media* of exchange other than gold; that wealth abounds, abundant provision having been made for man's needs by his Maker; that it ought to be available for the starving thousands; and that society is entering upon a higher stage in its development. Socialism, which is as yet only formulating

its claims, and is imperfectly understood by even many of its most fervent advocates, has at least done the service of pointing out that gold may be dispensed with and no real loss be entailed. There is, indeed, far more than appears on the surface in the presentiment which many feel, and in the reasoned induction from a wide survey of social *data* which many workers have made, that gold may be removed from the lofty throne from which it has ruled the world, and an adequate substitute be found.[1] The change will, however, be made slowly and tentatively. Meanwhile, the history of social facts is receiving a searching examination. "Social mischiefs" are being traced to their origin. "In a vague way," observes Thorold Rogers, "many persons are under the impression that the greater part of the misery they see is the direct product of laws enacted and maintained in the interests of particular classes. And," he adds, "on the whole they are in the right."[2] But he states only the bare truth when he sums up his reflections thus: "That the arrival of the New Demos is the crowning result of an ethical movement, in which qualities and attributes which we have been all taught to regard as the very highest of which human nature is capable, found the completest expression they have ever received in the history of the race."[3] In the great, though silent

[1] Unser jetziges Edelmetall- und Papier-geld unterscheidet sich von dem früheren Waarengelde darin, dass es im Gegensatze zu diesem keinen, oder doch nur sehr wenig realen eigenen Werth hat. Selbst wenn es aus Edelmetall besteht, ist es im Grunde genommen kein Sachgeld mehr, sondern nur noch Zeichengeld.—Vide *Das Geld-Problem und die Sociale Frage*, von Julius Hucke, p. 9.

[2] Preface to *Economic Interpretation of History*.

[3] *Op. cit.* p. 329.

changes that are taking place, the New Demos cannot remain indifferent to even such a commonplace subject as that of our monetary legislation. That legislation is practically to-day what it was fifty years ago. It makes now, as then, for the interests of the classes who framed it. Traditional Economics cannot control the evolution towards better conditions for man attaining to his highest destiny that is going on. Forces are at work that are stronger than traditionalism; and among these socialism, which, Stepniak says, "is the greatest moral force in modern society,"[1] holds the foremost place. However much misunderstood by its opponents, or even misrepresented by its advocates, its saving principle of altruism must prevail; and where true brotherliness obtains, there will be little room for either selfishness or monopolies. Mr. Kidd has given it as his opinion that "the development that will fill the history of the twentieth century will certainly be the change in the relation of capital, labour, and the State."[2] In this development *media* of exchange must play an important part. When attention is directed to signs of wealth, and their legitimate function is recognised, capital and labour will discover a new agency by means of which the real wealth that everywhere abounds shall be made to minister to man's highest material and moral well-being.

[1] Vide *Nihilism As It Is*, p. 22.
[2] Vide *Social Evolution*, p. 219.

CHAPTER XIV

THE ARGUMENT FOR FIDUCIARY MONEY

I

THE time must come when symbolic money will be very extensively employed. Its use must, indeed, become general. The things which people need for life being the only valuable things, the *media* for their exchange must hold a secondary place. The farthest-sighted economists are beginning to perceive and state these truths. As yet, however, we are trammelled by traditional customs and long-standing habits. It is difficult to break away from these. The departure from them must be made slowly and tentatively, for a sudden wrench would work more harm than good. People must become accustomed to its advantages before they can be asked to commit themselves to the exclusive employment of symbolic signs of real wealth. But, without question, the ultimate objects at which social evolution aims necessitate for their realisation, among other things, the use of *paper*, as that by means of which all commodities may be exchanged. We have, however, a long way to go, and many changes must take place before this ideal state is reached. But meantime it behoves the social worker to inquire as to the use and advantages of symbolic money. These are at

the present moment practical questions. Symbolic money is in use, but the benefits which accrue from its use are reaped by a set of men who enjoy a monopoly which ought never to have been put into their hands.

To perceive the force of the argument for symbolic *media* of exchange, it is necessary to recall what is meant by money, and to have correct ideas of the ends it serves; for everything depends upon having clear conceptions of what is implied when we employ the term. The distinction between money, *pecunia*, real wealth, and *moneta*, the sign or token of real wealth, has already been pointed out.[1] This distinction must be kept in view in endeavouring to ascertain what money as a term connotes. There are several kinds of money. Gold or silver coined by authority of Government is money. Notes issued by bankers who promise to pay gold on demand are also accepted and circulate as money. "As between the buyer and seller, a bank note is money," says Professor Walker, "if it be accepted in final payment of goods, or discharge of debts without recourse to the person from whom it is received."[2]

Almost all economists are now at one in holding that both silver and gold and notes payable in gold are money. They pass from hand to hand, the former having value in themselves, and the latter being representative of that value. There are, however, economists who object to notes being held to be money. Professor Walker cites the names of writers who maintain that it is a misapplication of the term to speak of notes as money;[3] notwithstanding the authority of these writers, it may be accepted that

[1] Vide p. 126. [2] Vide *Money*, p. 397. [3] *Ibid.* pp. 395, 396.

economists generally hold that notes convertible into gold at the pleasure of the holder constitute money.

But there is a third kind of money equally valid for business transactions within the country in which it is issued. It is representative, symbolic, *moneta*. It may be, as during the reign of the Norman kings, and for five centuries later, wooden tallies, or, as at the present time in countries where paper money only is used, notes issued by authority of the Government. This kind of money differs from gold coined, or bankers' notes payable in gold on demand, for it rests not on gold, but on Government credit, or Government authority.

II

By means of gold coined or *paper* representing gold, commerce may be aided. Traders may give their articles for the gold or *paper*, but gold really belongs to the same category as these articles, though some hold it ceases to be a commodity when it becomes coin. This, however, is a mere question of terms. It possesses a certain value; and is at the same time a convenient measure of value by which commodities may be exchanged. Gold, or *paper* representing gold, belongs to the commercial world. The Government has no legitimate control over it. All that it has a right to do, is to see that the gold coined be of a certain weight and fineness, and that if bankers issue notes, they ought to hold gold as against such notes. Discharging this duty faithfully, the Government protects the people, and provides against the country being flooded with useless notes. Beyond this, it has nothing to do with the prosperity or failure of banking establishments any

more than it has a right to interfere in other businesses; for banking transactions in gold or notes are business matters, a form of commerce and nothing more. The Government, therefore, cannot be justified in attempting to regulate the affairs of a banking-house, and ought to leave its management to the individuals who own the house. It cannot, at least, interfere, unless it also takes upon itself the corresponding obligation of guaranteeing the payment of debts in the event of failure on the part of bankers. This, however, it has not done, though Bagehot points out, many people believe that the Government must come to the aid of the Bank of England.

But Government has interfered with banks and their issues. Following the precedent of mediæval times, it has enacted laws which govern the operations of bankers. Had Parliament limited itself to the passing of Acts which guaranteed the purity of gold coined; had it insisted upon banks holding gold for all the notes they issued, it would not have exceeded its powers; but a great deal more has been done. Symbolic money has been created and put into the hands of a few privileged banks of issue. The symbolic or fiduciary notes authorised by the Acts of 1844–45 have no gold behind them. They rest upon securities and upon Government credit, and not upon gold. It is, we know, maintained that these notes can command gold. That is so in theory, but it is a monetary fiction to pretend that they could be redeemed in gold, if they were all presented, for gold does not exist to redeem any more than a small fraction of them.

Even the most strenuous opponents to changes

in our monetary system admit that it is unfair to other banks, unfair also to the public, to confer the privileges upon a few banks of issue. They see that these banks have a monopoly; that they reap profits which ought to go to the nation; and that they arbitrarily impose conditions upon traders which hamper and oppress commerce. For these reasons a loud protest is often made against the privileges which banks of issue enjoy; and it would certainly be louder if those who are interested in social problems were aware of the great injury that is done.

III

Our reference to the issues of these banks is not, however, so much to call attention to their monopoly —to that we have frequently, though not too often, referred, for it embodies an act of great injustice—as to prove that the Government has created symbolic money, and to show that there is a distinct province within which it belongs to the Government to issue such money. The gold coined into money cannot meet all the demands of commerce, or the needs of the people. Were an attempt made to conduct commercial transactions on gold only, trade would soon be at a standstill. *Paper* has, therefore, been employed, to the great advantage of commerce. The Government has authorised the issue of a great amount of *paper*. It is, however, contended that there is nothing of symbolism in these issues; that the Bank of England lent the Government money at different times, amounting ultimately to eleven millions, and that the issue of notes is made against the Government debt. Granted, but this cannot

be said of other banks of issue; they did not lend money to Government. Their issues of fiduciary notes were granted for the reason that, previous to 1844, they enjoyed the privilege of issuing notes to almost any extent, and their present privilege was conferred when their powers were limited. If, however, we take the case of the Bank of England, it can be argued that many corporations and individuals have also lent money to the Government. The National Debt represents great obligations, yet it has never been proposed that all who have lent money to the Crown should have the right of issuing notes. Besides, as proving that the fiduciary notes issued by the banks are really symbolic, it is well known that neither the Government, nor the Bank of England holds any gold with which to redeem them. The notes are symbolic money, and never have gold behind them, but only the Government securities, which ultimately mean the taxation of the country.

Now, we submit that this money should be issued by Government, or if banks be entrusted with the issue, it should not be given to the Bank of England, merely because that company is a creditor, nor to other banks, on the ground that long before 1844 they enjoyed the right of issuing notes to any extent. If banks have the right of issue, they ought to pay the Government for the privilege; and it ought to be open to all banks to compete for the right of issuing notes.

But we do not hold that it is necessary to resort to banks. The Government may be safely trusted with the issue of its own notes. That the Government can be thus entrusted we shall show in a little,

but meantime we point out how, on its own credit, it is open to the Government to issue its own money, in which its obligations can be largely discharged, and its servants paid. The revenue of the country for the year ending March 30, 1895, amounted to the large sum of £101,697,304. This sum is required to carry on the affairs of the country. The Government secures it by means of taxes direct and indirect. It regularly demands and receives its revenue. It is an interesting question, Where does this large sum come from? The entire stock of legal tender in the country does not exceed, taking even the very highest estimate, one hundred and thirty-three millions. Manifestly the fiduciary notes issued by the banks, and the credit bills of merchants, play an important part, and the same money must pass through the Exchequer several times in a year; but however that may be, taxes, direct and indirect, are levied and regularly paid.

Here, then, in taxation is sufficient credit upon which Government notes can be issued. Were it necessary, the Government might hold a certain reserve of gold for the sake of giving greater security, but even that is not required, for a stable Government like ours, which so unfailingly receives its revenue, can give all the security that is really necessary. The issue of Government notes thus amply secured would greatly facilitate business enterprises, for all economists hold that the more money there is in circulation, the greater is trade; and trade, the production of real wealth, acts and reacts upon credit, the ultimate basis of a nation's material prosperity.

IV

But, as might be anticipated, many objections have been urged against a Government issue. These we shall now proceed to consider.

First, it is objected that to issue Government notes would work mischief, and produce great injury. Those who entertain such fears are never weary of pointing to the rash experiments of John Law, to the French *assignats*, and to the disastrous results in countries like America, where an unlimited issue of paper money has been tried. With all economists, we, of course, deprecate an over-issue of *paper*; and in the instances cited hold with them that it was the reckless issues of French banks in Law's time, and during the Revolution period, without any stable basis, which led to all the harm that was wrought. But manifestly the same results would not follow where the issue is based upon the Government credit. Taxation is always a necessity. It is with us regularly rendered. In times even when the State was less stable, in those, for instance, of Charles II., goldsmiths and private bankers lent large sums to the Crown, having no other guarantee for their repayment than the pledged revenue of taxes imposed. The almost absolute safety which the revenue from taxation gives, induced the original shareholders of the Bank of England to lend their money to the Government. They were not disappointed. The revenue of the country did not fail them; and notes issued upon it would certainly pass from hand to hand, and be received as payment of debts. Such notes could not become unsafe or useless. If for a moment we turn to France

again, we find that even in that country the *assignat* was in 1790 a valid enough instrument. It represented at that date real property; and it was not, indeed, until five years afterwards, when the *assignats* were issued cumulatively, and without any real basis, that great injury was done.

There is, therefore, all the difference which language can indicate between an unlimited issue of *paper* representing nothing, and Government notes issued on the basis of the revenue of the country, and redeemable from day to day by their conversion into taxes. This is, indeed, the only safe foundation for the issue of paper money, and on this basis alone an issue can be advocated. So far from working mischief, such an issue would greatly facilitate the production of useful articles of consumption, and that again would operate towards greater prosperity and credit, the final tests of all monetary systems.

But, *secondly*, it is held that it would be foolish to attempt any drastic change, and that the present system works well enough. To this argument we reply that the issue of notes on Government security is not a drastic change, for it would imply no more than that the Government should do what manufacturers and large traders are doing every day. They are dependent upon credit bills which represent properties and real wealth. Without such bills they could not carry on business. They have, therefore, urged by necessity, devised and adopted perfectly safe *media* of exchange; and with great advantage to the well-being of the people, Government might follow their example. But when it is said the present system works well enough, this statement must be

taken as the utterance of men who have not sufficiently informed themselves as to the insecure basis upon which the present system rests. It works well enough—yes, but only for the benefit of a few; the many, instead of reaping advantage, suffer great loss. We know, of course, the old argument is constantly being repeated, that the great prosperity which characterises the past half-century, is due to our excellent monetary system; and that what has rendered great service should be untouched. This argument appeals to many; but when it is examined, there are few who do not perceive that what of prosperity marks our time, has been due to a large number of agencies operating together, such as education, mechanical inventions, the development of the natural resources of the country, and the industry of the people. These and other agencies have been at work, and, despite the defects of our monetary laws, great progress has been effected. How much greater it would have been had advantages not been reaped by holders of monopolies, and had the people enjoyed larger facilities for multiplying goods, it is not difficult to guess. Herein, indeed, lie many of the secrets of the social problem; and instead, therefore, of boasting of the splendid achievements that belong to the past half-century, and accomplished under the present monetary system, it would be more befitting to accommodate the monetary laws to the changed circumstances in which men labour and toil.

That there should be such an accommodation almost all economists now hold. It would, indeed, be impossible to name a distinguished writer who defends the system now obtaining. Its defects are

present to the minds of all who have given it a careful study. Even its strongest supporters are the readiest to acknowledge its anomalies, and to become alarmed when anything like a crisis threatens. Witness the testimony of Bagehot, already quoted. The younger school of politico-economic writers, too, are unanimous in condemning it, and in maintaining that Economics has been the last of the sciences to respond to the pulsation and throb of the great social movement that is obliging the old and effete to give place to the new and vigorous in every department of life. But that is just to say the present system is indefensible. It has had vital power enough to carry us through the few crises that have been experienced, but even in these it has been rudely shaken. Thrice the Act of 1844 has been suspended; and during the Baring crisis it was stated that, invested with the power which that Act gives to any three members of Her Majesty's Government, Mr. Goschen went to the Bank of England, and was on the point of authorising the directors to issue some millions of paper money, when the governor, Mr. Lidderdale, ingeniously conceived and carried out another method of relief. If, then, the crises which have come and gone tried so severely the present system, how could it be able to endure the fearful weight that would be thrown upon it in the event of a great war? It is safe to predict that it has not strength enough to bear the strain, and would certainly break down. It would, indeed, be found that no other course than that pursued towards the close of last century would be effective, and that the system which saved the country's credit, and enabled the Government to carry out its policy during

the trying period covered by the Napoleonic wars, would require to be adopted.

But, *thirdly*, objection has been taken to the Government issuing its own symbolic notes, for another reason. It has been contended that whenever the State issues *paper*, a depreciation of paper immediately sets in, and that this depreciation of paper implies an advance in bullion beyond the Mint price of gold. The rate of advance is the measure of the depreciation. This argument, first elaborated by Ricardo, whatever its worth, rests upon the assumption that paper would be depreciated. That, however, is far from certain. True, in Ricardo's day this conviction was firmly rooted in men's minds, and many advocates of a return to the law which obtained before 1797 used it with great effect, and also without any scruple. But here, as elsewhere, more enlightened views and sounder economic principles have, within recent years, been entertained. Paper, in one or another form of money, has been adopted to an extent that could not have been dreamed of at the beginning of the present century; and a majority of economists now accept the statement of M. Cernuschi that, "whether good or bad, no money is ever in its own country below par." "This," says Mr. Heseltine, "is self-evident, and being so, there can be no country with any standard, good or bad, in which there is a market value in its own country for its own currency differing from the legal value."[1] It is, therefore, far from certain that paper money would be depreciated; but in addition to the presumption that there would be a depreciation, it is further assumed that notes ought to be convertible into gold,

[1] Vide *Nineteenth Century*, September 1894.

and that of all articles gold alone should have a fixed Mint price. It is not, however, essential to the development of trade and the well-being of the people that paper should be convertible into gold. It does not even obtain in practice at the present time; for if an attempt were made to convert all the *media* of exchange which manufacturers and traders use into gold, it would speedily be discovered that the thing is impossible. If, therefore, trade can be extensively and safely carried on under these conditions, the notes issued by Government would be equally valid and safe. As to the contention that gold ought to have a fixed Mint price,—for upon this also Ricardo's argument rests,—no sound economic reason has ever been given for such a demand. Commerce does not require it; and, indeed, during the years 1797 and 1819, when the country's resources were so severely tested, and proved equal to the strain put upon them, trade did not then experience any need for a Mint price of gold. During these years gold had no fixed price. It rose and fell in price like all articles of commerce. The purchasing power of paper was not measured in terms of gold alone, but in those of all commodities. Taxation was then very heavy. The advance in the price of all things was very great. Gold, not protected by arbitrary laws, shared in the operations of a natural law, and therefore also, in common with other articles, rose in price. Paper retained the symbolic value attached to it by Government. It did not vary. Rents and taxes were paid in notes, and all kinds of debts were discharged by means of them. They served, therefore, the purpose for which they were issued. If, however, gold, or corn, or wool, or any other article which people desire for use or

ornament, rose in price relatively to these notes, that was not a sufficient reason why any one of such articles should have been tied down in price. Perceiving this, many of the most distinguished bankers and economists of the day exerted themselves to the utmost to retain the law of 1797 in operation, but their efforts were in vain. Ricardo and his school exercised a powerful influence upon statesmen and politicians. More than any other writer, indeed, he was responsible for the return to the old state of things, which had brought the country to the verge of bankruptcy in 1796, and has been a determinative element in all subsequent commercial panics.

V

It must not, however, be assumed that Ricardo did not claim to be guided by economic principles. On the contrary, the Economics which lay at the root of his contention afforded, in his judgment, the strongest argument for the course which he recommended statesmen to follow. To understand, then, the position which he occupied, his theories of labour and competition must be taken into account and kept well in view; for it was the adoption of these theories that led him to argue for a return to the redemption of notes by means of gold. We require, therefore, to examine Ricardo's root-principles. With him the ultimate standard of value is labour. But what does he mean by labour? He did not discriminate with sufficient clearness between different kinds of human exertion. He did not, for instance, distinguish between ability and labour, as Mr. Mallock has rightly done, in his *Labour and the Popular Welfare.*

This accomplished writer makes ability "essentially moral or mental exertion, and only incidentally muscular," while labour is described as "mainly muscular, and only moral or mental in a comparatively unimportant sense." Ricardo acknowledges "different qualities of labour," but this acknowledgment amounts to nothing, for he confidently adds, "The estimation in which different qualities of labour are held comes soon to be adjusted in the market with sufficient precision for all practical purposes." [1] Reasoning of this description may have been sufficient when Economics was in its infancy; and even now, when, through the labours of many clear-sighted economists, the *data* of social life are carefully sifted, analysed, and classified, might be passed over without comment, were it not that Ricardo developed from unverified premises his theory of free competition — competition in all things but gold; for gold, he contended, must always remain at its Mint price, and all articles be bought and sold in terms of gold.

The conclusion which Ricardo reached is valid only in so far as his premises are verified and his reasonings accurate. His starting-point, however, has been questioned, and his arguments examined, with the result that few now defend them. Professor Alfred Marshall has shown conclusively that Ricardo and his school took too narrow a view of the problems with which they had to deal.[2] Ricardo excluded, says M'Leod, "immaterial and incorporeal quantities from his investigations." He confined his "inquiry solely to material things," and of these he

[1] Vide *Political Economy*, E. C. K. Gonner's edition, p. 15.

[2] Vide *Principles of Economics*, p. 93.

left out of account "all but those which are the products of human labour." He then attempted "to found a general theory on a simple subdivision of one class of commodities that have value."[1] The same estimate of Ricardo and his school is also taken by Mr. Kidd in his *Social Evolution.* Political economy, he says, has made a false start, and has not taken into account social conditions and social problems. "Our social phenomena seem to be continually moving beyond its theories into unknown territory, and we see the economists following as best they can, and, with some loss of respect from onlookers, slowly and painfully adjusting the old arguments and conclusions to the new phenomena."[2] Thus, competent and impartial judges being witnesses, it is, on their showing, manifest that theories, the result of too narrow generalisations of social phenomena, have been adopted. But it was these theories that gave to the legislation which issued in our present monetary system whatever justification on economic grounds it possesses. Ricardo declared for competition. That which must govern all commercial transactions, he held, is the law of supply and demand. He did not perceive any higher principle, and therefore argued that all things must submit to this law. We do not discuss the rightfulness of giving to supply and demand such a prominent place in commerce. It is the antithesis of altruism, and ministers to selfishness and greed; it cannot, therefore, mark the highest stage in the development of social progress; but, assuming the principle legitimate, how did it come to pass that Ricardo and his school did not apply this

[1] *Vide* H. D. M'Leod, in *A Policy of Free Exchange*, p. 40.
[2] Vide *Social Evolution*, by Benjamin Kidd, p. 25.

law to gold? It also obeys the law of supply and demand. It must, at least, if permitted to operate as all commodities do, pass from one person to another. Increase of population, commercial progress and production, necessitate more money, and increase the demand for gold. The supply is provided by the yield of gold and silver mines. Government, within certain limits, can also create money. But Ricardo held that though supply and demand must obtain in all other departments, the precious metals must be excluded from the operations of the law. Gold must be fixed in price. Its Mint price must never change; and the successors of Ricardo in 1844, following only too faithfully his Economics, went so far as to hold that the amount of representative money allowed by the Government in that year must avail for all future time, no matter what the increasing needs of trade might be.

Thus gold and paper money were stereotyped and limited. There might be a large increase of gold; the mines might yield a greater amount, but that was to avail little so far as the Mint price of gold was concerned. It can never be allowed to alter. The actual production of gold in 1886 was twenty-one millions; in 1894 over thirty-one millions, nevertheless the Mint price remained unchanged. Nor could even the cost of production make the Mint price to vary. Del Mar, while contending that not the cost of production, but the quantity of gold produced, determines its price, supplies elaborate details as to the vast expenditure of time and energy required to produce an ounce of gold, and states "that the £90,000,000 of gold produced in California, from 1848 to 1856 inclusive, cost in labour alone

some £450,000,000, or five times its Mint value."[1] Manifestly, either the law of supply and demand ought to be limited in its operations in all departments of trade, or gold ought to have free play. Economists cannot tie down one article, and yet claim that their science is dictated by justice and is obedient to natural laws. This, however, has been done; and statesmen, misled by the School of Ricardo, have passed through Parliament monetary measures which operate in the interests of money-dealers, and against the well-being of the great mass of the people. Statesmen like Sir Robert Peel, and the Government's advisers like Lord Overstone, were, indeed, very much guided by the principles propounded by economists and philosophic writers; but since their time entirely new conditions obtain, and new problems springing from the social evolution going on, demand attention. The commerce of the present time, with its enormous transactions and corresponding obligations, was unknown to them. They developed monetary measures from premises far too narrow. They encouraged reckless competition. They set an example which other countries have not been slow to follow. Hence the strong protest of Karl Marx, who contends, and with much reason on his side, that the poor have been exploited by the rich; and even writers like Marshall and Kidd, while not assenting to Marx's theories, are at one with him in holding that the principles which sanction and encourage competition must be reconsidered, analysed, and reviewed; but meanwhile the practical result of the theories first laid down and defended by

[1] Vide *A History of the Precious Metals*, by Alex. Del Mar, pp. 259–263.

Ricardo is that money-dealers reap great advantage and the poor suffer; and in view of such a result his arguments against the use of Government money go for little.

VI

A strong argument in favour of the issue of money by the Government is found in the enormous development of the credit system within recent years. The richer traders have risen superior to the laws which stand on the Statute-Book; and have found *media* of exchange which eminently serve their purpose. It is, indeed, most instructive to consider the amount of credit which rests upon a relatively small amount of gold. The *Spectator*[1] recently warned its readers against the evils of the old Mercantile theory, which did so much harm to trade and traders.[2] The essential idea in this theory is that "money is synonymous with wealth"; and from this theory was developed that of the "Balance of Trade." The Mercantile theory and all that it implies, the Balance of Trade included, have, however, been largely set aside by business men; for it is now seen that money, whether in the form of gold or paper, is but the sign of wealth. Hence large commercial transactions are now carried on with only a small reserve of gold. "In a return," says M'Leod, "laid before Parliament by an eminent City firm, it was shown that out of £2,000,000 of payments and receipts by the firm, only £40,986 were paid in gold, silver, and copper; all the rest in different forms of credit; and some bankers found that in

[1] Vide *Spectator*, September 28, 1895.

[2] The Mercantilists flourished between the years 1500 and 1700.

banking only four per thousand, or ·0025 per cent. were paid in coin; all the rest in credit." There are, he adds, about £110,000,000 of actual coin in the country, and the credit which rests upon this sum amounts to £10,890,000,000,[1] figures which make Bagehot's bystander tremble when he compares the minuteness of the gold in hand "with the immensity of the credit which rests upon it." Mr. J. C. Leaver states that the chief London banks, exclusive of the Bank of England, owe to the public £227,000,000, and that the cash in hand, and at the Bank of England, amounts to £27,000,000. "The balance," he adds, "between these two figures is represented by properties, and undertakings which are created into money by the banking and general financial system which has grown into existence."[2] Mr. George Clare, in his *Money Market Primer*, which has been included in the list of books recommended by the Council of the Institute of Bankers, supplies ampler information respecting gold in hand, and credit resting upon gold. "The sum due," he says, "on the 31st December 1890 by the banks of the United Kingdom, under the head of Deposit and Current Accounts, was estimated by the *Economist* on the basis of the balance-sheets published by the joint-stock establishments at, in round numbers,

[1] "Thus, if we say that ninety-nine per cent. of the transactions of this country are carried on by credit, and only one per cent. by coins, our statement will be well within the mark, and we may obtain a very rough approximate estimate of the actual amount of this circulating credit, because the best estimates of the actual coin in the country place it at £110,000,000. Now, if we multiply this by ninety-nine per cent. we shall find the result to be £10,890,000,000 as the proximate actual quantity of credit in all its different forms in this country."—*A Policy of Free Exchange*, p. 45.

[2] Vide *Money*, by J. C. Leaver, p. 20.

£650,000,000, while our whole stock of legal tender does not exceed £126,000,000[1] . . . and of these

[1] A correspondent supplies the following note: "The Board of Trade returns regarding the imports and exports of gold do not begin till 1858, and it is therefore necessary to estimate the sovereigns, half-sovereigns, and gold bullion of 1857. Newmarch's estimate of £80,000,000 is accepted by the best authorities. It is the basis of our present Mint Reports, and was the accepted basis of the estimate of the English Silver Commission. The net import of gold does not all go into circulation, as a deduction has to be made yearly for the arts and manufactures. Ottomar Haupt estimates the amount required for the arts and manufactures as having been between 1857 and 1870 £1,500,000 annually, and £2,000,000 since then. Without further explanation, we can now proceed to estimate the increase or decrease of the "legal tender" circulation. Between 1857 and 1875 it increased as under:—

Newmarch's gold estimate of 1857 . .	£80,000,000
Net imports of gold, 1857 to 1875 . .	80,000,000
	£160,000,000
Less used in arts, etc.	30,000,000
Total gold coin and bullion . . .	£130,000,000

The legal tender circulation had thus increased by £50,000,000 in 1875 as compared with 1857, or at the rate of about £3,000,000 sterling a year. Now, as to the results of 1876 to 1889, we find the following:—

Gold coin and bullion, 1875	£130,000,000
Net imports gold, 1876–1889 . . .	2,000,000
	£132,000,000
Less used in arts, etc.	28,000,000
Total gold coin and bullion	£104,000,000

The legal-tender circulation had thus in 1889 decreased absolutely by £26,000,000, and relatively, comparing it with the rate of increase between 1857 and 1875, by £68,000,000. The results between 1890 and 1894 are thus:—

Gold coin and bullion, 1889 . . .	£104,000,000
Net gold imports, 1890–1894 . . .	39,000,000
	£143,000,000
Less used in arts, ...	10,000,000
Total gold coin and bullion, 1894 . .	£133,000,000

£126,000,000 it is quite likely that half to two-thirds are in actual circulation among the public, leaving a balance of, say, fifty or sixty millions available for banking purposes.[1] Further, he adds, the law takes no cognisance of a banker's operations in accepting deposits. It "leaves him to keep as much or as little legal tender as he pleases. It forbids him to put forth a single note beyond the amount assigned to him in 1844, but is silent on the subject of deposits; and while the State-controlled liability to the public of all the banks in the United Kingdom (excluding the Bank of England) amounts on their authorised issue to £14,000,000, their uncontrolled liability on Current Deposit Accounts amounts to £650,000,000. Practically the whole of this vast sum is payable in gold on demand, but, on the assumption that only a very small proportion will be asked for at any one time, bankers have locked up over 90 per cent. of it in bills of exchange, securities, loans, etc., and only the Bank of England pretends to keep

Thus we begin 1895 with £3,000,000 more legal tender than in 1875, but relatively £54,000,000 less than what it ought to have been to keep prices steady. As these figures are compiled from the Board of Trade returns, they are placed pretty much beyond the reach of controversy. Of course, to be quite correct, the wear and loss of our gold coins should be deducted. M'Culloch estimated the wear and loss of the gold and silver coins of the world at £7,500,000 sterling annually in 1856, and this amount should now be increased. Then it is fairly certain that the outflow of gold in the pockets of our tourists, travellers, and seamen is larger than the inflow. Taking these together, it is calculated that our circulation suffers to the extent of half a million sterling annually in this way. Therefore during the last thirty-six years this annual deduction would mean £18,000,000. The estimate of our gold coin and bullion for 1895 would therefore be £115,000,000 sterling. This deduction, being common to both periods, does not affect our comparative figures given above regarding increase and decrease absolutely and relatively, which are based on official reports."

[1] Vide *The Money Market Primer*, by George Clare, pp. 48, 49.

up a large store of legal-tender money. The thirteen or fourteen millions of notes and gold lying in its vaults are, therefore, the ultimate and sole cash reserve of the whole country, and if the Bank lost that reserve, neither the banks which depend upon it, nor the customers which depend on the banks, would be able to keep their engagements. On it, in short, reposes the entire fabric of English credit."[1] The Committee appointed to inquire into the Indian Currency state that "in the United Kingdom the amount of gold and silver available for the purposes of currency is uncertain, but the Mint estimate of the gold in circulation is £91,000,000, of which the amount in banks — including that in the Issue Department of the Bank of England and in other banks against which notes are issued—is stated to be £25,000,000." The banks of issue have the right of putting into circulation fiduciary notes to the amount of £27,450,000.[2]

Whichever of these estimates may be taken, it is quite evident that an enormous credit rests upon a comparatively small amount of gold. Business with far-reaching ramifications is transacted, and for the most part it relies, so far as *media* of exchange are concerned, upon a meagre reserve of gold and a large amount of paper. It is, therefore, little wonder that bimetallists insist upon silver being added to

[1] Vide *The Money Market Primer*, p. 51.

[2] The above figures express the amount of fiduciary notes issuable at the close of 1892. In 1844–45, when the Bank Charter Acts were passed, the total issue was £31,859,424; but through the operations of the law already explained, the original amount is gradually lessened whenever any of the provincial banks of issue close their doors. These notes, therefore, instead of being increased with the increase of population and commerce, are actually decreased.

gold as legal tender. The actual gold money in the hands of the people is alarmingly and disproportionately small when compared with the credit that is made to rest upon it. If, therefore, the advocates of bimetallism could prove that their solution of the monetary problem did not necessitate giving to an article which at present has little commercial worth a fictitious price, or if they could show that its adoption would not imply a great and unjust advantage to the few who hold silver, bimetallism might be adopted, but, unfortunately for the advocates of the bimetallic theory, their contentions rest for the most part upon unverified premises. It is not, indeed, in the direction of bimetallism that a solution will be found for monetary and social problems. The actual historical growth of *media* of exchange "has been towards the use of representative money and organised credit"; and that because "there is with the growth and development of society a need for a progressive system of exchange which shall grow relatively less costly."[1]

The extensive use of paper money by all modern States is further proof of the direction in which a solution will be found, and of the excellent ends served by means of it. In the United States paper money is issued to the extent of £210,000,000. France has notes to the amount of £132,000,000, Belgium £15,000,000, and Germany £68,740,000.[2] In all these countries credit is good. They owe, indeed, much of their prosperity to their monetary

[1] *Vide* Sherwood, *op. cit.* pp. 214, 215.

[2] *Vide* Report on Indian Currency, pp. 22, 23, for a full statement of the gold held in reserve and in use, and the vast issue of paper money in all modern States.

systems. The Governments, too, reap part of the profits from the issues of paper money; and even in the German Empire, where the banking system is modelled on that of England, and is, therefore, less elastic, all issues beyond the £62,740,000 allowed to the Reichsbank and other banks of issue are taxed five per cent., while the Imperial Government issues six millions in its own name and for the benefit of the nation.

If, then, much advantage be thus gained by other countries, our Government may with almost absolute safety issue its own money. The natural resources of our land are great, and the industry of the people quite conspicuous. In these and other well-known factors the Government's stability is founded; and with such foundations Parliament would be amply justified in issuing its own money. Its notes could be put into circulation as Exchequer bills were originally issued. They would pass current in any of the public revenues, aids, taxes, or supplies, or at the receipt of the Exchequer. Their purpose would be well defined, and the basis upon which they rested well understood.

Hitherto, in discussions on the duty of Parliament to issue its own notes, writers have not sufficiently taken into account the circumstance that a strong and stable Government may do in a minor degree what bankers and money-dealers accomplish on a large scale. They transact business, and yet their money is to a great extent only representative. It is not gold, but "properties which answer for the purposes of money as effectually as coin."[1] "The bankers' balances, if secured upon suitable property

[1] *Vide* Leaver, *op. cit.* p. 20.

in the form of solid securities of a saleable character, and guaranteed by a proper proportion of paid-up and uncalled-for capital, form an absolute currency for nearly all the purposes required by them, both commercially and privately. They serve, as it were, as a guaranteed key or tie between the transfers of commodities from one buyer to another—the only real use of money as a matter of fact."[1] If, then, hundreds of millions of credit can rest upon a few millions of gold, Government notes would as rapidly and as safely circulate.

But it might be argued that business men would object or hesitate to accept Government notes. This, however, is an objection that cannot be maintained with any show of reason, since, at the present time, business transactions are almost entirely conducted by paper in one form or another, and not by gold; and who, on an impartial view, can venture to think or say that Government security is not as good as that which any individual can give? Besides, money is lent extensively by money-dealers to foreign States. These creditors have no other guarantee than the taxable capacity of the countries to whose rulers the money is lent; and if on the taxation of other countries money is lent, how much more safely may a stable Government like our own issue its notes redeemable in taxes. The amount, too, to be guaranteed by the Government is relatively small when compared with what joint-stock banks owe to the public. These establishments could not meet their obligations if creditors insisted upon having gold. There is not gold enough in the country for such a purpose, and yet banks, money-dealers, and merchants carry on

[1] Leaver, p. 25.

business burdened with almost unthinkable sums of money due by them. The argument, therefore, for the issue of money by Parliament, and under the control of responsible Ministers, is of the strongest kind, and cannot be easily set aside.

CHAPTER XV

THE ADVANTAGES OF PAPER MEDIA OF EXCHANGE

I

THE advantages accruing from the use of paper money issued by the State are not only monetary, but also social and moral; for if real wealth can be multiplied, and better conditions for moral progress can be obtained, it is at once evident that the advantages are not merely monetary. Now, it is fully acknowledged, by all who are competent to judge, that the use of credit bills, and the signs of "properties which answer for the purposes of money as effectually as coin," enable those who use them to multiply their stock and increase their riches. The paper guarantees are indirectly productive of advantage to those who hold them. The advantage, however, is secured by few people. Only those who own property can employ paper signs of such wealth. The great mass of the people have no control over property. It is not in their hands; and they therefore enjoy few advantages from the credit system. Poverty and distress are more frequently their lot. Workmen, who are real producers of wealth, may combine, and endeavour to improve their condition, but the task is a hard one. If they possess political power in the form of votes, they may be listened to

by the legislator, and small concessions may be granted. These, however, have hitherto availed little to allow them to enjoy the fruit of their labour. Sometimes they are forced to strikes, which operate hurtfully, even when, from the workmen's point of view, they appear successful. In the struggle to secure better conditions for the development of their mental and moral powers, it only too often happens that they are worsted in the fight, and sufferings increase. The men who hold in their hands the signs of wealth prevail; and when this takes place, to every sympathetic mind social problems become more and more perplexing and baffling.

But if it be true that the credit system is productive of wealth to the holders of property,—and it would be difficult for any one to say that business could be carried on without the use of *paper*, or to deny that large profits are made by means of it,—it follows that the Government ought to do what merchants have done. Money can be safely issued on Government credit. It has that which is equal to properties that answer for money. Its securities are good enough. At the present time it borrows money from the Bank of England on these securities. If, however, instead of resorting to the Bank of England, the Government issued its own notes, the notes would circulate freely within the United Kingdom. They would be accepted in payment of debts. They could not be easily hoarded. They would make for the production of real wealth, and the people would reap all the advantages that might come from their circulation, and the wealth they helped to create. Social distress would, therefore, to a considerable extent be mitigated. Moral progress

would find more favourable conditions for its development. With more employment—for there would be larger production than is now possible—there would be a greater degree of comfort, better remuneration for labour, and an improvement, the notes of which would be as much moral as physical.

Notes issued by Government would confer the additional advantage of giving greater stability to trade. Under the present system prices are constantly fluctuating, and that largely because the fiduciary money created by Parliament is in the hands of the directors of banks of issue. That which should give, and was originally intended to give, trade the help it needed is under the control of a few privileged persons. Not altogether, but to a large and appreciable extent, according as they put more money into circulation or withdraw it, prices rise and fall, and business is prosperous or the reverse. We do not say that this is the only or even the chief factor affecting prices, but it is certainly one of several influences that tell upon them; for stability of prices can only be maintained when money bears a definite proportion to production and increase of population. Of the money, however, in circulation, that which is fiduciary forms a large part. It is of the utmost importance to stability of prices that fiduciary notes should remain in the hands of the people, but at present they are under the control of bankers. The duty of Parliament is, therefore, plain enough. The money issued by its authority should not be determined by haphazard, or by a policy which aims at bringing all issues of fiduciary notes into the hands of one bank, as the Act of 1844 manifestly contemplates, but by the needs of the people and trade, and in some

definite ratio to the amount of revenue required by the State. Were this done, then fiduciary notes would increase or decrease with the amount of taxation imposed. They would be at the disposal of traders and workers, and would supply one strong element which would operate towards stability of prices.

There is another advantage which the issue of money by the Government would secure. At the present time it comes under a heavy obligation to the Bank of England whenever the Chancellor of the Exchequer issues his Exchequer bills; for these are accepted by the Bank on condition that the Government pay interest upon them, and also allow the Bank to send out its own notes as against Exchequer bills that are held by it. These notes thus issued are frequently employed in discounting commercial bills, upon which, again, interest is paid. The advantages of the arrangement are wholly on the side of the Bank, which reaps a double gain. The country, however, suffers to the extent that the Bank profits.

II

Now, with constantly recurring periods of commercial depression, and social problems pressing for an immediate solution, it must, to all informed economists, continue to be a matter of surprise that the Government does not attempt to obviate this obligation, and deprive the banks of issue of the privileges they unjustly hold. Strong terms are sometimes used when the Government of the day refuses to grant petty reforms; and, as Mr. Sidney Low points out, a Ministry falls nowadays over an un-

popular Water Bill,[1] while it may stand securely even though it refuses to touch great evils that adversely affect the whole nation. When we consider the heritage which the money-lending legislators of the past have handed down to posterity, and the injustice done to the country by the monetary laws they have enacted, the wonder is increased that no serious attempt has been made to restore the Crown's prerogative on behalf of the people. We know that the task of righting these great evils is stupendous. Only another Hercules could slay this modern Antæus; the very greatness of the task is held by many to be a sufficient justification for leaving it alone.

That the Government possesses the prerogative to issue its own money is evident, both from the history of our subject and from the powers which belong to Parliament; for the history shows that long even before indirect taxation was imposed, as early, indeed, as the Norman Conquest, the Crown issued representative money. From the time of William the Conqueror and onwards this right was claimed and exercised. For about six hundred years the legal tender of the country consisted of metallic coins and wooden *tallies* issued by the Exchequer, and not bearing interest as Exchequer bills now do. In these *tallies* the people paid taxes to the State, and rent to landlords. According to Davenant, in 1698 there were fourteen millions of symbolic money in circulation. In 1699, a year afterwards, the *tallies* were withdrawn, and the directors of the Bank of England were authorised to issue their notes in substitution for the representative money hitherto in use; and, what deserves the closest attention, these notes

[1] Vide *Nineteenth Century*, September 1895.

were no longer to represent taxation as the *tallies* did, but they were assumed to represent gold. The effect of this extraordinary change was to make the Bank stock go up by "leaps and bounds"; having obtained control of Government money, the directors had it henceforth within their power to make money scarce or dear; and they so manipulated it that in a short time the shares of the Bank rose to one hundred and twelve pounds.

It needs to be remembered that the original symbolic money rested upon Crown securities, which, for the most part, consisted of taxation imposed; that this money was at first issued by definite resolutions of the Crown; and that when Parliament exercised the functions which kings so long held in their own hands, the Bank of England was authorised by Act of Parliament to substitute its notes for the original *tallies*. If, then, the Crown possessed the right to issue representative money, and Parliament the authority to transfer the issuing of notes from its own hands to the directors of the Bank of England, the privilege conferred on the Bank can be recalled, and if it be for the welfare of the people, ought to be withdrawn. But without resting this claim upon the Crown's ancient right, it must, as we have just shown, be possible for the Government to do what traders are constantly doing. On their own authority, and without the aid of Parliament, they issue bills which pass from hand to hand, and though not legal tender, serve all the ends of money. "These bills," says Blackstone, "are letters of request from one man to another, desiring him to pay a sum named therein to a third person on his account." They are, he continues, "a direct engagement in writing to pay

a sum specified at a time therein limited to a person therein named."[1] These bills, therefore, serve the same purpose as money. They are extensively used, and with great advantage. If, then, under conditions which business transactions create, trade can be, and is, carried on with safety and advantage, how much more safely may the Government issue its money, resting upon its own credit, than is possible under the present system, and how much greater would be the advantages which the people would reap.

It may, however, be said that if this power were exercised, there would be a great danger to the State, because of the strong temptation to issue notes in excess. Historical examples of such an excess are often pointed out; and, generally speaking, those who urge this objection, and support it with historical illustrations, imagine that an insuperable difficulty lies in the way of the issuing of notes by Government. We have already discussed this question at some length, and only refer to it again for the purpose of saying, *first*, that since Government could only issue notes with the sanction of Parliament, and since, again, members of Parliament are responsible to the people, an over-issue could scarcely take place. *Secondly*, that there would really be little temptation to issue notes in excess; for no benefit would accrue to the Government by such an over-issue. The temptation would, therefore, be reduced to a minimum, even if it be assumed possible. And *thirdly*, that at the present time large sums of money are managed by commissioners responsible to Parliament. Witness, for instance, the Commissioners of the Sinking Fund, Ecclesiastical and Land

[1] *Vide* Book ii. chap. 30.

Commissioners. All these have great temptation in the discharge of their duty, but no person doubts their fidelity; and therefore, if they can be trusted, Government, holding office by the will of the people, may be relied upon with equal safety. "Are there any valid objections," asks Mr. N. A. Nicholson, in a work of which he says, *there is no new theory in this book*, "to a great central establishment for the whole of Great Britain, under the control of the House of Commons?" And he replies, "the objections do not appear to be valid. Objectors say that it would be dangerous to allow so large an amount of bank notes to be issued against Government securities, and that it would render convertibility impossible in times of panic; but, from the very nature of our monetary system, convertibility must always be impossible in times of panic, for if all the holders of bank notes were to present them for payment in gold at one time, their demands could not be met, the securities against which our limited amount of bank notes are issued could not be converted into gold during such an emergency. As long as the amount of bank notes permitted to be issued in Great Britain, against other security than that of bullion, is lower than the circulation could ever be reduced to in the worst possible circumstances, we are safer with our bank notes issued against Government securities than we could be if they were issued against any other securities whatever other than bullion itself. Objectors also say that entrusting the business of issuing bank notes to private enterprise secures more care, diligence, and economy in the management of that business than if it was entrusted to a central issuing-establishment under the control of the House

of Commons. The same might be said of any Government establishments whatever, but with less truth in this special instance, for the business of issuing bank notes is purely mechanical, only requiring the very best preventatives against the possibility of forgery that science can discover."[1]

Professor Sherwood, after enumerating the difficulties that lie in the way to an issue of notes by a Government, thus concludes: "These difficulties in the way of Government paper money, however, are not to be regarded as insuperable. An amount of paper money, safely limited, with immediate redemption, amply provided for, issued by a Government which is politically stable, and administered with honour and ability, may not only work no harm to the industry of the people, but may be a positive and gainful convenience."[2] The redemption of such an issue would constantly go on from day to day in taxation; and as to a safe limit, the law regulating the Government's issues could be made stringent enough. Many additional checks could be adopted. The entire amount issued could be stated on every note as well as its own "face value"; or a sufficient guarantee might be secured by giving to Government issues a special design, and making them correspond with the original Exchequer bills; or periodical returns might be made as to the amount of notes in circulation, and how many have been returned in payment of taxes. Assuming, then, the issue of Government notes to be possible, safely guarded, and their amount easily ascertained, it now remains to show how the use of these notes would

[1] Vide *The Science of Exchanges*, pp. 37, 38.
[2] Vide *op. cit.* p. 391.

operate towards social welfare and the well-being of the people. Whether one looks to the customs of ancient kingdoms, or the practice of modern States, or to the operations of well-established economic principles, the great advantage of Government money is at once seen.

III

As to the customs which prevailed in ancient empires, we have already had occasion to point out that the king or ruler claimed all the gold extracted from mines, or won in battle. He was master of the rude Mint of his day. Gold and silver were treasures, and not yet, or only to a small extent, money. The metals were used as ornaments, or for temple purposes. Gradually, however, there was given to gold and silver an economic use. They were employed as money in Lydia, Greece, Persia, and in the Macedonian empire. If the Lydians were the first to perceive the value of the metals as *media* and measures of exchange, the Greeks were the first to develop on economic principles other signs of wealth which were valid only in the State in which they were issued. They had their Mina of the State and their Mina of the Market, ***ΜΝΑ ΔΗΜΟ*** and ***ΜΝΑ ΑΓΟΡ***. The Greeks, indeed, anticipated some of the latest results of modern economists. Aristotle, for instance, saw clearly the economic truth which in the hands of Adam Smith destroyed the fabric erected by the mercantile theory. He distinguished between money and wealth in his Politics.[1] The testimony of Plato as to the use of representa-

[1] *Vide* Book i. chap. 8.

tive money is still more remarkable. With him the State is supreme, and the family and individual are subordinated to its interests. Describing his Ideal State, he finds room for commerce, and shows how it ought to be conducted. Accordingly, he makes Adeimantus ask how merchants can "within the city exchange their productions," and Socrates replies, "the way will be that they will buy and sell." Adeimantus observes interrogatively, "Then they will need a market-place, and a money-token[1] for purposes of exchange." To which Socrates answers, "Certainly."[2] The use of the *νόμισμα ξύμβολον*, the money token, symbolic money, is still further explained in Plato's Laws, where the representative money has "a value among the members of the State, but no value to the rest of the world." It need scarcely be said that ancient States did not wholly realise Plato's ideals. They held gold and silver to be treasures which were eagerly coveted. Money, in the comprehensive sense of modern times, the metals never wholly became. Barter, too, prevailed largely even in the most developed States; but it was certainly something gained that the great teachers perceived wealth to be different from money, and that in an Ideal State signs of wealth would be used extensively. How far, indeed, Plato anticipated the demands of the most advanced socialists, is a question which will yet receive, as it deserves, special attention. Lapse of time has little effect upon genius. Men of insight see that which others only slowly and painfully learn. Progress is largely due to the labours of men of genius, and certainly

[1] *νόμισμα ξύμβολον.*

[2] Vide *The Republic of Plato*, Book ii. Jowett's Translation, p. 50.

whatever estimate may be put upon the ideals of socialists, some of its keenest-sighted advocates belong to the class that has laid the whole world under obligation.

The practices of modern States afford a fine illustration of the advantages of representative money. They have, indeed, discovered that their vast commerce could not be carried on without it; and that progress depends upon its use. Accordingly, all have employed it more or less. How extensively it is used by the great European powers is, however, imperfectly realised, otherwise the *laissez faire* criticism of those who oppose its extension within the United Kingdom would not so readily be made. Thus, France issues one hundred and thirty-two millions of notes, and a hundred and forty millions of silver, which is really symbolic, for silver has fallen far below its Mint price, yet the coined silver of France is legal tender to any amount, and the Republic reaps the benefit of all this money. Germany issues sixty-eight millions, seven hundred and forty thousands of paper, six millions being a direct Government issue. Twenty millions of old silver thalers are also in circulation, and are legal tender to an unlimited amount. Other Continental States issue representative money to even a greater extent than France or Germany. All who issue it profit by its use. Had the great powers of Europe not such large standing armies to maintain,—armies which in 1892 were estimated to cost £190,320,000, and that on a peace-footing,—and if these armies did not withdraw such large numbers of men in the very prime of life from active work and production, it can be easily seen that the real wealth of the

Continent would be enormous. As things stand, it is doubtless the extensive use of symbolic money by the Continental States, that enables them to produce so many commodities, and to exchange them so conveniently.

But we must look further afield to ascertain the benefits of representative money. The South American States supply a good illustration of the advantages that are reaped. "The case of Brazil," according to the Indian Currency Committee, "is perhaps the most remarkable of all, as showing that a paper currency without a metallic basis may, if the credit of the country is good, be maintained at a high and fairly steady exchange, although it is absolutely inconvertible, and has been increased by the act of the Government out of all proportion to the growth of the population and of its foreign trade."[1] Again, as showing how paper money can hold its own even against countries having a gold legal tender, we quote the testimony of Mr. J. C. Auldjo, a writer who has given to *media* of exchange a long and careful study. "Argentina," he says, "can put wheat on board steamers at Buenos Ayres at about $11 paper per quarter, which at present means about 13s. *plus* 5s. freight and charges, or say 18s. in London. If the gold premium rises to three hundred per cent., the sterling price is reduced to 16s., without affecting the pocket of the Argentina farmer one iota, as his money is paper, and gold and silver to him are merely high-priced and utterly useless commodities."[2] Reverting to the Report of the Indian Currency Committee, a document upon which absolute reliance can be placed, since it is

[1] P. 26. [2] Vide *Glasgow Herald*, Oct. 24, 1894.

the work of accomplished experts, we find the Dominion of Canada cited as a country which is "without any gold currency, and without even a Mint for gold," yet it issues £3,700,000 Dominion notes of various amounts, from twenty-five cents up to four dollars; and allows the banks to issue "notes for five dollars, or any multiple thereof, to an amount not exceeding their 'unimpaired paid-up capital,' such notes being redeemable in specie or Dominion notes; the present issue is about seven millions." [1]

Now Canada, like the other countries where paper money is used largely, is fairly prosperous. It owes, however, little of its prosperity to gold or silver money. It is almost entirely dependent upon its notes both for the production of articles of consumption and use, and for the exchange and distribution of its commodities; and therefore, if the practices of the different States to which reference has been made be taken into account, it will be seen that great advantage is gained wherever paper money, safely guarded and well defined, obtains. We might, then, rest satisfied with these practical illustrations as sufficiently proving the benefits of paper money. We cannot, however, dismiss our subject without endeavouring to ascertain how the use of paper money bears upon prices, and affects our commercial dealings with foreign countries.

IV

It helps towards the elucidation of the former of these questions if we carefully discriminate between *price* and *value*. When these terms are treated as

[1] P. 22.

synonymous, confusion of thought ensues, economic truths are disregarded, and the bearings of the question are obscured.[1] Value as an economic term is separate from and independent of price. It expresses what has worth, utility, merit, and, as Ruskin says, "avails for life."[2] Price, on the other hand, is variable, and is dependent upon the quantity, worth or utility of a given article, the labour required to produce it, the desire on the part of many persons to possess it, the interest taken in it, and especially the quantity of money in circulation, and the amount of taxes, direct and indirect, that are a first charge on income. Of all these, the last two tell most upon price; for if money be scarce and taxes heavy, purchasers are obliged to give more labour, or things which express labour, for what they desire, and then they naturally hesitate to make the sacrifice of parting with what money they have in exchange for the article or articles they desire to possess, or in which they take an interest.

Speaking broadly, therefore, prices may be said to vary and fluctuate with the variations and fluctuations of the amount of money in circulation. They rise or fall according as *media* of exchange are scarce or plentiful. Hence the question,—so earnestly canvassed whenever there is a large output of gold from the mines, or an extra issue of notes,—how will prices be affected? and to what extent will fluctuations take place? Whenever a large amount of money is suddenly put into circulation, prices invariably rise; for all economists hold that an increase of the *media* of exchange raises prices, and makes for prosperity.

[1] *Vide* p. 108.

[2] Vide *Unto This Last*, p. 118.

But the increase due to an extra production of gold is seldom so marked as that due to an extra issue of notes. The output of gold from the mines is fairly steady. It does not, at least, vary so frequently as prices. Fluctuations are, indeed, more frequent than the variations in the production of gold would justify. They must, therefore, be due to something else. Experience shows that while many elements enter into and influence prices, the sudden issue of fiduciary money, and again its sudden contraction, are of all factors the most disturbing. Every panic testifies to the power exercised by the banks of issue. They can withdraw their notes even when trade most requires them, and this they do, not always in obedience to the state of the exchanges, but for the purposes of personal gain. Times of panic are the bankers' opportunities for making profit. Then many a man who has abundant wealth in land, or house property, or goods which the people can consume or use, is obliged to sell out, with the result that he is ruined; and this happens because he cannot obtain money on reasonable terms.

It is, however, frequently alleged that times of dull trade are also times when money is cheapest, and when investments cannot be had. This is only true with an important explanation. Dull trade and cheap money often do go together; but money is only then cheap to corporations and parties who can offer the amplest security. It is not cheap to the ordinary trader. He is obliged to pay higher discounts, and can only borrow money at a rate which makes business almost impossible.[1] Confidence, it is

[1] The Bimetallic League publishes a statement made by Mr. H. R. Beeton in the *Financial News*, which explains the apparent anomaly.

said, is shaken, and this is held to be a sufficient justification for withholding money at a reasonable rate of interest; but what is it that shakes *confidence*? Not that the natural resources of the country are exhausted; not that men are unwilling to work; not that markets for commodities cannot be found; but that the money created by Parliament for the good of the people is withheld from them, and that the temptation to money-dealers and usurers, who in times of general distress and ruin make large fortunes, is too great for them to overcome. To their dealings fluctuations are due; and the rapid rise and fall of money, its sudden plentifulness which encourages trade, and its equally sudden contraction which destroys trade, account largely for traders' losses, commercial depression, and social distress; for it is a well-established economic principle that prices, whether high or low, if uniform, do not produce so much injury; it is only when they rise or fall rapidly that trade is dislocated and distress follows. "It is not," says Professor Ely, "the 'much or little,' but it is the 'more or less' that is of vital concern. Nothing," he continues, "produces more intense suffering than a decrease in the amount of money, and this is on account of the connection between

"Falling prices," says Mr. Beeton, "which are necessarily due to relative scarcity of money everywhere, result in absolute abundance of money in certain places; and those who can only see under their noses jump to the conclusion that if bankers have more money than they know what to do with, everyone else must have enough, or they would help themselves." "The accumulation of money in banks," writes Mr. Arthur Fonda, "in times of depression indicates, not too much money, but a general belief that its value is rising, or a fear that it will rise,—testifying, if to anything, to too little money, in fact. Men do not hold a thing that brings no income, unless they expect to profit by its rise."—Vide *Honest Money*, p. 109.

past, present, and future in our economic life."[1] That, therefore, which, in the first instance, is most urgently required, is the issue of notes that could not be contracted at the will of a few irresponsible men, and a supply of such notes as would "adjust itself quickly and correctly to any change in demand, so that prices of all commodities shall on an average neither rise nor fall." A well-regulated Government issue makes for stability, and against fluctuations. It keeps money in circulation.

But the old argument will be again urged, viz., the notes will fall relatively to gold. We admit there might be a fall in paper money, but we do not allow it is absolutely certain. In any case, the fall in prices would not be so great as was experienced when the Act of 1819 was passed, for then Ricardo, who was largely responsible for the passing of that measure, anticipated a fall of only five per cent., whereas, within a few months, there was a fall in prices to the extent of twenty-five per cent. But even assuming that a fall of paper relatively to gold would take place, what does that prove? Nothing more than that gold, like all articles, has risen in price. And what economic law forbids the rise and fall of gold? To maintain that its price should be unchangeable is to argue that there is no possible progress beyond the stage reached when Economics was first made a matter of serious study; and practically it is to allow the non-producer, the mere money-dealer, to reap all the advantage. This is manifestly unjust; but the injustice will only be removed when gold is allowed to rise and fall according to its market price. It might occasionally rise above par, and some may see

[1] Vide *Political Economy*, by Professor R. T. Ely, p. 191.

in this an evil, if paper money obtained, as we have contended it ought; but the *paper* could not be really depreciated, if its amount was strictly regulated. Gold has, moreover, a function that is clearly defined. It is, like many other articles, the sign of an incomplete transaction. A man cannot live on gold. Robinson Crusoe on his lonely island had his bags of gold, but they were useless. It needs a second party, whose necessities can be supplied through an exchange of gold for something else, to make it of practical use. Gold, therefore, is the sign of the incomplete transaction; but this sign of an imperfect act is often used under present conditions to ruin thousands of people; for a person may have abundance of wealth, say corn, or wool, or house property, and yet if those who manipulate the bank operations should decide to send the gold out of the country, and to contract their fiduciary notes, he cannot sell or realise his property unless at enormous disadvantage. He has, however, to meet pressing obligations; and though his real possessions far exceed his debts, which have to be paid in gold when that is scarce through bankers' manipulation, he may in the meantime be obliged to sell at great loss his corn, or wool, or house property, and thus be commercially ruined. The dealer in gold, the mere usurer, can thus bring on a crisis, and those, masters and workmen alike, engaged in producing goods are at his tender mercies. This manifestly ought to be impossible; but it will never be avoided until gold is treated as a marketable article.

Were gold thus used, the advantages of a clearly defined and safely guarded issue of paper would be wholly on the side of the people. These issues work

admirably in countries where they have been adopted, as is witnessed by the testimony of the Committee on the Indian Currency. Paper money may fall in price relatively to gold, but no injury is thereby done; for so long as it is legal tender within the country, a depreciation cannot take place. Provision ought, therefore, to be made in our monetary system for the issue of money by and in the name of the Government. Such an issue would maintain prices at a steady level, and make for prosperity; for, as we have just shown, while money cannot produce trade, trade requires the aid of convenient *media* of exchange; and in the proportion that the *media* are kept in circulation, real wealth is produced, wages are high, and social well-being secured.

V

But we have now to consider the further question how paper money affects our commercial dealings with foreign countries. This question is closely related to that of prices. *Media* of exchange consisting of paper are at the present time largely employed in our dealings with foreign traders. Few payments are, indeed, made in gold for commodities received. Liabilities, whether they be those of the trader or mere money-dealer, are liquidated by means of bills of exchange on the various Continental Bourses. It is only when the balance is against a country that the difference between the aggregate amount of the obligations of foreigners to that country, and it to them, is paid in bullion or gold coins. Payment, however, is not always made in gold, for even in this instance bills are frequently used. These bills are offered for sale,

and those who have obligations to foreigners keenly compete for them. On many occasions these bills go beyond par; sometimes they fall below it; and in these dealings we have, therefore, an illustration of the services rendered by paper money on a most extensive scale. Little gold passes from one person to another in proportion to the magnitude of business transacted. Bills of exchange take the place of gold, and that, too, with apparently perfect safety. If, then, on such a large scale paper can be thus used, much more might it be safely employed on a lesser scale; and the question, how a Government issue would affect commercial dealings with foreign countries, is answered with comparative ease. Our obligations to them must, of course, be met with gold, or bills that profess to be redeemable in gold. The Government issue would circulate only within the United Kingdom, as the issue of our Scottish banks circulates only within Scotland. But what of foreign exchanges while this process is going on? Manifestly with our country's great natural resources, with our improved mechanical appliances, with the great capacity for work on the part of the working classes, and with money obtained upon easy terms, there would be a greater production of articles of consumption and use. Real wealth—*pecunia*—would increase, and this increase would enable traders to put into foreign markets that which would bring a greater return of gold, or commodities which we accept in place of gold.

Under these favourable conditions, foreign exchanges would seldom be against us. The cheapness and abundance of foreign productions at the present time take away our gold; and the same law operat-

ing, we would be able to obtain command of theirs. This is the natural solution of a problem that often gives anxiety to merchants, and profoundly affects the social welfare of thousands. It is also a possible one; but instead of being adopted, recourse is had to an artificial method, which puts the fiduciary money of the country in the hands of a few bankers who obtained their privilege when the science of Economics was little understood, and political corruption prevailed extensively. The holders of this privilege contract or expand the issue of notes at their will. They acknowledge no responsibility to any one. They are supreme. When the gold of the country is found to be leaving it, and that, too, often as the result of their own profit-making operations, then they take alarm and withdraw their notes from circulation, and impose a high rate of discount. Trade is at once dislocated, and commerce hampered because money is scarce. Production is also limited, and labour ill remunerated. The foreign trader then sees his opportunity, and is not slow to benefit by the advantage offered to him. He exports his goods, and demands payment in gold, and that at a time when all articles save gold, which is fixed in price, have risen in price. He does not take our commodities in exchange for his own, for that would not be profitable. He prefers gold, and, from his point of view, rightly so. But the effect of such trading is to draft gold from us; and when, therefore, it is required, the Economics which hitherto has prevailed knows no other way of bringing it back than by contracting the fiduciary money, and putting on a high rate of discount or interest on money lent.

Against this state of things there is no remedy

but that of withdrawing from the banks of issue the extraordinary power they now possess. They have no claim to continue exercising it. The Government alone has the right of issuing money for behoof of the people. Its money safely guarded would operate as a safeguard against the disadvantages from which the country now suffers. The foreign trader could not carry it away with him, for when he dealt in our markets, he would receive this money in exchange for his goods, but he would be obliged to exchange it again for gold, and the amount of gold which he received would, therefore, be the price he obtained for his commodities. He might dispose of his goods for this price or not. His action would indeed be determined by other considerations, such as whether he could find in other countries a better market and higher prices. That, however, would be for him to decide, and not for home traders, whose business it is to produce such articles as will command a market both at home and abroad.

VI

Whether the operations of our monetary system be considered in relation to their bearings upon the production and distribution of commodities within the country, or in relation to their influence upon foreign trade, the reflection cannot be easily resisted that the causes which produce what often appears as baffling social problems do not lie on the surface. They are for the most part hidden from the great majority of the people deeply affected by them. Men and women toil and labour, heavy obligations in the form of taxes, direct and indirect, are laid upon them, and, oppressed

with care and almost intolerable burdens, it is not matter of surprise that they have little time and less inclination to ascertain what distant and hidden principles are in operation, and are producing the vexing problems which they have daily and often wearily to face. There are, however, hopeful signs. In the social evolution that is constantly going on, despite apparently retrogressive movements, causes, long concealed, are being carefully sifted, and traced to their origin; and while in many fields of labour and departments of thought fresh discoveries are constantly being made, a patient examination of our monetary system reveals some of the most potent influences that have been at work in creating the social problems of the day. It may be said that finance is wholly material, and that not in monetary but rather in moral elements a solution of the present unhappy condition of things can only be found. To overlook the great value and vast importance that belong to moral issues would indeed be folly; but men and women must live; food must be provided, and also an environment that will encourage them to seek after the highest moral ideals. For these reasons the subject considered in these pages has for every person an interest. Thousands of men willing enough to work, but unable to find employment, are starving, and it argues an airy optimism to expect them to be able to find pleasure in mental and moral pursuits while they cannot obtain bread. Thousands more eke out a livelihood which spells bare subsistence, and nothing more; and to them also lofty appeals must be made in vain. It is true that if the condition of the majority of the working classes be compared with that of their brothers of former times, it will be seen that in many respects

they are more favourably situated, and enjoy advantages which make for comfort and moral progress. While, however, there are many things calculated to evoke gratitude and inspire social workers with hope, it must not be forgotten that more now than ever fortunes are made by men who are mere usurers and money-dealers. To employ terms coined by Ruskin, their *pluses* mean *minuses* to many producers of real wealth. They reap advantages, but produce nothing. The monetary laws that stand on the Statute-Book favour their manipulations of the money market. The money of the country is at their disposal, and they can and do make it scarce or plentiful; but whatever they make it, their personal gain occupies their first and last thoughts. Such a temptation ought to be removed as far as possible from them; and certainly a great step would be taken in advance if the money created by Act of Parliament for behoof of the people were placed under their control, and at their disposal. A practical proposal of this kind is, however, sure to be opposed by economists who have committed themselves to theories held and sanctioned by the old masters of Economics, while money-dealers will strongly maintain that a departure from the present system, which is to them abundantly profitable, cannot be safely made; but the attainments and knowledge of the great masters who flourished when Economics was in its infancy, cannot be the measure of the attainments and knowledge of economists of the present day; for if it be, then that is to confess the science has made no progress and experience has taught us nothing. These, however, are statements which cannot be made, and if they cannot, then, again, that implies that defects ought to be corrected, and that a system more in har-

mony with economic principles and well-ascertained facts ought to be adopted.

When economists, social workers, and statesmen set themselves to this double task, the natural hesitation of those who find the present system profitable enough will be overcome; the signs and tokens of wealth will be made to bear a definite relation to wealth itself; commodities other than gold will be made the standard of value; the Government will exercise its ancient right, and issue its own money; the privileges and arbitrary powers of bankers will be limited, and paper money, which in business transactions now renders such excellent service, will be more extensively employed. Changes so great as these must, however, be made slowly; for there is much of a natural conservatism even in the most advanced Liberals. Changes, indeed, to be salutary and stable, must come slowly, for that is a law of all growth, material and moral. Reforms, more or less beneficial, have been effected in many departments of the national life, but, as Kidd reminds us, Economics lags far behind in the general movement, and imperfectly accommodates itself to the ever-changing *data* of social life. Here, as elsewhere, the great *desiderata* are patient investigation and systematised information. When these are supplied, and the claims of Economics take a firmer hold upon the minds of those who have the social welfare and the moral well-being of the people at heart, it needs not special insight to predict that the time cannot be far distant when needful, safe, and wholesome changes will be effected on the monetary system.

As we have argued at length, the first change that ought to be effected is that of withdrawing the privi-

lege which banks of issue now enjoy. This is an urgent, practicable, and not a drastic reform. It is the minimum that ought to be demanded. But the *data* which the history of money brings to the front, and the wider and truer view of the function of *media* of exchange which the latest studies in Economics justify, point to the adoption of paper as the safest sign of wealth, and the best medium for the exchange of goods. A standard of value other than gold alone is being gradually seen to be necessary. Gold, indeed, varies so much that it can only be retained as the standard, if injustice be a matter of no concern to the economist. According to Jevons, gold fell in purchasing power between the years 1789 and 1809, 46 per cent., and rose again from 1809 till 1849, 145 per cent., while from the latter year till 1874, it fell 20 per cent. "A sovereign to-day," says Dr. Smart, "will exchange for 66 per cent. more of things in general than it did some twenty years ago."[1] Gold, therefore, varying so greatly, cannot be a fair or just standard of value.

We have already shown that socialists commit a fundamental mistake in seeking for a standard of value in labour. Led astray by the theorisings of Ricardo, socialists have endeavoured in vain to establish a standard of value in labour; and their ideals can never, therefore, be reached along that line of investigation. Labour, as Fonda,[2] Smart,[3] and Mallock in his *Labour and the Popular Welfare* prove, is of such different kinds that it cannot be measured. The fruit of labour may, however, be accurately estimated. "Real labour," says Hill Burton, "is not measurable

[1] Vide *Studies in Economics*, p. 155, by Wm. Smart, LL.D.
[2] *Op. cit.* p. 14. [3] *Op. cit.* p. 254.

by time, but by what it produces."[1] In articles, then, produced by labour, though not in labour itself, a standard of value may be found.

The United States Senate "Aldrich Report" and the elaborate tables prepared by Soetbeer, Sauerbeck, and the London *Economist*, show the possibility of collecting a number of representative articles and ascertaining their average prices over a given period. It must be further possible to take their average prices, and constitute them a standard of value. That, at least, is the contention of the clearest-sighted economists. They see that the tendency of the times is to do business without gold. In not more than five per cent. of business transactions is it used at present; but they likewise perceive that, all things being referred to a gold standard which is constantly changing, the present monetary system cannot be accepted as final. It marks the attainments of the time when it was adopted; but it cannot be regarded as the measure of the knowledge and experience of the present time. It is, besides, essentially unjust. In its operations violations of the law of right are constantly happening. It encourages greedy graspings and unaltruistic action. Even where business men are honourable, the system which they are obliged to observe makes them do things that mean losses to their fellows.

To entertain the belief that a time must come when a standard of value will be found in the average price of representative commodities, when gold and silver will be relegated to their natural place, and when notes will be issued by Government to any person or corporation who can offer sufficient security at a vary-

[1] Vide *Political and Social Economy*, p. 30.

ing rate of interest, and redeemable in any commodity at its current market price, may be only a dream or a fond hope, and never a reality, but he would be daringly bold who maintained that the thing is impossible. Far greater changes have been effected in the past. In the work just quoted Hill Burton seriously questioned the possibility of applying mechanical appliances to agriculture. When in 1849 he penned his *Political and Social Economy*, he did not even dream of the possibility of a reaping and binding machine. And, if one takes a still wider survey of great social improvements, he is reminded that there was a time when, serfdom prevailing, the feudal lord, as he drank his wine or hunted in his wide domain, held this to be the best world ever made, and scouted the idea of his serfs ever rising to the position of freemen, and exercising within the State political rights equal to his own; but the reforming spirit, once awakened, destroyed feudalism, and serfdom gave place to wage-earning; and that same spirit is again moving on to a higher stage of progress, its path being marked by profit-sharing,[1] co-operation, etc., and its end a state in which all the fruits of labour shall be enjoyed by all producers.[2] Gold, the least useful of metals, and extracted from the mines at a fearful waste of human energy and devastation of fair lands, cannot always rule the world. Another and an equally safe sign of wealth must take its place. Paper money is even

[1] *Vide* Sedley Taylor's *Profit-Sharing*, for a full account of this new development.

[2] "The society of the not very far distant future," says Dr. Henry Dyer, "will have an admixture of individualism, trade unionism, co-operation, and Municipal and State socialism, and not only will it be found there is room for all, but also that all are necessary."—*Evolution of History*, p. 275.

now in use to an extent never dreamed of when our present monetary system was formulated; and many therefore hold that by means of it there may be exchanges of goods free from unbrotherly greed and commercial acts of injustice.

That a higher and more perfect social state will be attained is the hope, nay, the firm conviction, of the most disinterested social workers, who, seeing deeper into economic principles than others, do not hesitate to predict the final triumph of righteousness and altruism, and to picture, as only the man of insight can, the high ideal state towards which all things are moving. That such thoughts enter into men's minds, and find embodiment in practical proposals of reform, is itself a promise and earnest that a better time will come. Meanwhile, each person must work according to his light, giving the results of his labours as contributions towards the realising of the day that is coming; and resting assured that the honour will be great indeed if he be permitted to have done anything, however insignificant, to second the efforts of those who ultimately will grasp the cords which set the bells of the universe a-ringing because righteousness has triumphed over all the earth. Emile de Laveleye, writing in the pages of the *Revue des Deux Mondes*, concludes a long review of the teachings of commercial crises in language as eloquent as true. "Henceforth, for weal or for woe, in prosperity and in adversity, nations have truly become solid. St. Paul, in a sublime image, has said that all men form only one body; and philanthropists have also taken pleasure in speaking of the great human family. These expressions in the economic order of things, at any

rate, cease to be mere metaphors, they are becoming a simple truth."[1] The more men realise their solidarity, and that mutual interests are secured by unselfish action on the part of each individual, they lay deeper and sounder the foundations of a perfect and enduring State, and overcome more easily the difficulties that lie in their path, finding at once hope and inspiration to duty in the intuitive longings after higher and better things, for to every generation is given the experience

> Die Welt wird alt und wird wieder jung,
> Doch der Mensch hofft immer auf Besserung,

and, with this experience, the pledge that the social welfare of mankind will ultimately be secured.

[1] Vide *Revue des Deux Mondes*, January 1865.

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